STADIUM AUTHORITY
STATE OF HAWAII
(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

STADIUM AUTHORITY
STATE OF HAWAII
(A Component Unit of the State of Hawaii)

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SECTION I

INTRODUCTION SECTION

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

March 16, 2010

The Auditor
State of Hawaii:

We have completed our audit of the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2009 as listed in the table of contents. We transmit herewith our reports containing our opinion on those financial statements and our report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Audit Objectives

The objectives of the audit were as follows:

1. To provide an opinion on the fair presentation of the Authority's financial statements in accordance with U.S. generally accepted accounting principles.

2. To consider the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

3. To perform tests of the Authority's compliance with laws, regulations, contracts, and grants that may have a direct and material effect on the determination of financial statement amounts.

Scope of Audit

We performed an audit of the Authority's financial statements as of and for the year ended June 30, 2009 in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of the audit of the Authority's financial statements, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also considered the Authority's system of internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

Organization of Report

This report has been organized into three sections as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.

2. The Financial Section includes management's discussion and analysis, and the Authority's financial statements and notes as of and for the year ended June 30, 2009, and our report thereon.

3. The Internal Control and Compliance Section contains our report on the Authority's internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

* * * * * * *

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by the personnel of the Authority during the course of our audit. Should you wish to discuss any of the matters contained herein, we will be pleased to meet with you at your convenience.

Very truly yours,

KPMG LLP

SECTION II

FINANCIAL SECTION

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements of the Authority are intended to present the financial position, the changes in financial position, and cash flows thereof of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, and the changes in its financial position, and, where applicable, its cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stadium Authority, State of Hawaii, as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 16, 2010

Management of the Stadium Authority, State of Hawaii (the Authority) offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of Aloha Stadium as of and for the fiscal year ended June 30, 2009. This management's discussion and analysis is designed to assist the reader in focusing on the Authority's financial issues and activities to identify any significant changes in the Authority's financial position. The Authority encourages readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements comprise four components: (1) statement of net assets; (2) statement of revenues, expenses, and change in net assets; (3) statement of cash flows; and (4) notes to financial statements.

The financial statements are designed to provide the reader with a broad overview of the Authority's finances in a manner similar to private sector business or a "net assets" bottom-line approach. These statements include all assets and liabilities, using the full accrual basis of accounting. The difference between the two is reported as net assets. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Thus, assets, liabilities, revenues, and expenses are reported in these statements for some items that will result in cash flows in future periods (e.g., uncollected rental receipts, earned but unused vacation leave, etc.). These financial statements only include the activities of the Authority.

Statement of Net Assets

The statement of net assets presents all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the Authority is improving or deteriorating.

Statement of Revenues, Expenses, and Change in Net Assets

The statement of revenues, expenses, and change in net assets presents information showing the Authority's revenues and expenses for the fiscal year. Functional activities are highlighted in this statement.

Statement of Cash Flows

The statement of cash flows presents the increases and decreases in cash, including cash held by other state agency, during the fiscal year.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

(Continued)

Condensed Financial Information

The following are summaries from the Authority's financial statements as of June 30, 2009 and 2008 (in thousands):

	2009	2008
Net assets:		
Current and other assets	$ 8,216	$ 10,741
Capital assets, net	45,838	38,694
Total assets	54,054	49,435
Current liabilities	1,022	959
Noncurrent liabilities	743	497
Total liabilities	1,765	1,456
Invested in capital assets	45,838	38,694
Unrestricted	6,451	9,285
Total net assets	$ 52,289	$ 47,979
Change in net assets:		
Operating revenues:		
Rentals from attractions	$ 5,138	$ 5,727
Commissions from food and beverage concessionaire	1,425	1,870
Other	1,208	1,405
Total operating revenues	7,771	9,002
Operating expenses:		
Personnel services	(4,342)	(4,021)
Depreciation	(4,187)	(4,066)
Other	(4,657)	(3,161)
Total operating expenses	(13,186)	(11,248)
Operating loss	(5,415)	(2,246)

		2009		2008
Nonoperating revenues (expenses):				
Interest income	$	245	$	349
Loss on amounts held in State Treasury		(650)		—
Total nonoperating revenues (expenses), net		(405)		349
Loss before capital contributions		(5,820)		(1,897)
Capital contributions		10,130		1,346
Change in net assets		4,310		(551)
Net assets at beginning of year		47,979		48,530
Net assets at end of year	$	52,289	$	47,979

Financial Analysis

Current and other assets decreased by $2,525,000, or 24%. The decrease is primarily due to the decrease in the cash in State Treasury balance from the previous fiscal year. The Authority encumbered large amounts of equipment during the last quarter of the previous fiscal year, which subsequently was paid for in fiscal year 2009. Further, the Authority wrote down their amounts held in State Treasury by $650,000 in fiscal year 2009.

Capital assets, net increased by $7,144,000, or 18%, from the previous fiscal year. The increase is primarily due to new CIP projects related to Aloha Stadium roof repairs and structural improvements. The Authority’s investment in capital assets as of June 30, 2009 amounted to $45,838,000 (net of accumulated depreciation of $4,187,000). This investment in capital assets includes the Stadium structure, land and land improvements, construction in progress, and equipment, furniture, and fixtures.

Additional information on the Authority’s capital assets can be found in note 5, Capital Assets, to financial statements.

Current liabilities increased by $63,000, or 7%. The increase is primarily due to increases in the Authority’s current portion of accrued vacation and its allocated share of the State of Hawaii’s net other postemployment benefits (OPEB) obligation amounting to $26,000 and $30,000, respectively. Fluctuations in the current liabilities account are due to normal business operations.

Noncurrent liabilities increased by $246,000, or 49%. The increase is primarily due to an increase in the Authority’s noncurrent portion of its allocated share of the State of Hawaii’s net OPEB obligation amounting to $266,000.

Net assets increased by $4,310,000, or 9% due to current year's capital contributions, offset by operating expenses exceeding current year's operating and nonoperating revenues. By far, the largest portion of the Authority's net assets ($45,838,000 or 88%) reflects its investment in capital assets (e.g., land, buildings and equipment). The Authority uses these capital assets to provide services to the customers of Aloha Stadium; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net assets ($6,451 or 12%) may be used to meet the Authority's ongoing obligations such as future operational expenses, replacement equipment, and personnel costs.

Operating revenues decreased by $1,231,000, or 14%. The attendance at University of Hawaii football games and the Swap Meet decreased by 18% and 11%, respectively, from the prior year, which directly contributed to the decrease in rental, food and beverage, and parking revenues.

Capital contributions increased by $8,784,000, or 652%. The increase in capital contributions is primarily due to Aloha Stadium roof repairs and structural improvements. Current year improvements include replacement of the metal roof deck and field light control, stiffening of the raised concourse bridge, and an overall analysis of stadium structural improvements and stability.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Stadium Manager, Stadium Authority, P.O. Box 30666, Honolulu, Hawaii 96820-0666.

General information relating to the Authority and Aloha Stadium can be found at the Authority's Web site, http://www.alohastadium.hawaii.gov.

STADIUM AUTHORITY
STATE OF HAWAII
(A Component Unit of the State of Hawaii)

Statement of Net Assets

June 30, 2009

Assets		
Current assets:		
Cash (notes 4 and 7):		
Cash in State Treasury	$	7,142,363
Cash in bank and on hand		225,440
		7,367,803
Receivables from concessionaire and other, net of allowance for doubtful accounts of $38,368 (note 7)		548,440
Interest receivable		77,831
Total current assets		7,994,074
Capital assets, net (note 5)		45,838,209
Cash held by other state agency		222,010
Total assets		54,054,293
Liabilities		
Current liabilities:		
Vouchers payable		228,297
Accrued payroll		283,052
Accrued vacation – due within one year (note 6)		208,680
Postemployment liability – due within one year (note 6)		193,000
Due to State General Fund for advances for Imprest Fund		30,000
Other (note 7)		79,345
Total current liabilities		1,022,374
Accrued vacation – due in more than one year (note 6)		255,270
Licensees' deposits (note 7)		111,273
Postemployment liability (note 6)		375,941
Total liabilities		1,764,858
Commitments and contingencies (notes 6 and 8)		
Net Assets		
Invested in capital assets		45,838,209
Unrestricted		6,451,226
Total net assets	$	52,289,435

See accompanying notes to financial statements.

STADIUM AUTHORITY
STATE OF HAWAII
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Statement of Revenues, Expenses, and Change in Net Assets

Year ended June 30, 2009

Operating revenues:	
Rentals from attractions	$ 5,138,440
Commissions from food and beverage concessionaire	1,424,851
Parking	664,633
Advertising	217,057
Other	325,655
	7,770,636
Operating expenses:	
Personnel services (note 6)	4,341,496
Depreciation (note 5)	4,187,112
Utilities	1,176,104
Special fund assessments (note 9)	530,504
Repairs and maintenance	461,297
Security	311,218
Professional services	210,921
Other	1,967,239
	13,185,891
Operating loss	(5,415,255)
Nonoperating revenues (expenses):	
Interest income	245,417
Loss on amounts held in State Treasury (note 4)	(649,862)
Total nonoperating expenses, net	(404,445)
Loss before capital contributions	(5,819,700)
Capital contributions	10,129,765
Change in net assets	4,310,065
Net assets at beginning of year	47,979,370
Net assets at end of year	$ 52,289,435

See accompanying notes to financial statements.

STADIUM AUTHORITY
STATE OF HAWAII
(A Component Unit of the State of Hawaii)

Statement of Cash Flows

Year ended June 30, 2009

Cash flows from operating activities:		
Cash received from customers	$	7,812,574
Cash paid to suppliers		(4,681,491)
Cash paid to employees		(4,008,205)
Net cash used in operating activities		(877,122)
Cash flows from investing activities:		
Purchase of capital assets		(1,202,009)
Interest from investments		167,586
Loss on amounts held in State Treasury		(649,862)
Net cash used in investing activities		(1,684,285)
Net decrease in cash		(2,561,407)
Cash at beginning of year (including $240,436 of cash held by other state agency)		10,151,220
Cash at end of year (including $222,010 of cash held by other state agency)	$	7,589,813
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(5,415,255)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		4,187,112
Decrease in receivables from concessionaires and other		41,938
Increase (decrease) in liabilities:		
Vouchers payable		(21,137)
Accrued payroll		19,440
Accrued vacation		17,652
Postemployment liability		296,199
Licensees' deposits		(11,957)
Other		8,886
Net cash used in operating activities	$	(877,122)
Supplemental disclosure of noncash capital and related financing activity:		
Capital assets contributed	$	10,129,765

See accompanying notes to financial statements.

(1) Financial Reporting Entity

The Stadium Authority, State of Hawaii (the Authority) was established by Act 172, Session Laws of Hawaii (SLH) 1970, effective June 30, 1970, and was placed within the State of Hawaii, Department of Budget and Finance (B&F), for administrative purposes. Effective June 1, 1980, Act 302, SLH 1980 and Executive Order No. 80-5 dated June 20, 1980 transferred the administrative responsibility for the Authority from B&F to the State of Hawaii, Department of Accounting and General Services (DAGS).

The Authority, under the direction of a nine-member board, is responsible for the operation, management, and maintenance of Aloha Stadium, located in Honolulu, Hawaii. The Governor appoints the nine members. The president of the University of Hawaii and the superintendent of education are nonvoting exofficio members.

The Authority is a blended component unit of the State of Hawaii (the State). The State Comptroller maintains the central accounts for all the State's funds and publishes financial statements for the State annually, which include the Authority's financial activities.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority used in the accompanying financial statements conform to U.S. generally accepted accounting principles applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB) through its statements and interpretations. The following is a summary of the more significant accounting policies:

(a) Basis of Accounting

The accounts of the Authority are reported on a flow of economic resources measurement focus using the accrual basis of accounting. Revenues are recognized in the period earned, and expenses are recognized in the period incurred.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations, management, and maintenance of the Aloha Stadium. The principal operating revenues are from rental charges and commissions from the food and beverage concessionaire, while operating expenses include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected not to apply any Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989.

(b) Cash in State Treasury and Bank

Cash reported in the statement of net assets includes cash in the State Treasury and cash in two separate bank accounts.

(c) Capital Assets

Capital assets acquired by purchase are recorded at cost. Donated capital assets are recorded at estimated fair market value at the date of acquisition.

Depreciation has been provided for the stadium structure and equipment, furniture, and fixtures over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Stadium structure	20 – 40 years
Equipment, furniture, and fixtures	5 – 15 years

The Authority's capitalization thresholds are $100,000 for the stadium structure and $5,000 for equipment, furniture, and fixtures. Maintenance, repairs, minor replacements, and renewals are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in the statement of revenues, expenses, and change in net assets.

(d) Cash Held by Other State Agency

Cash held by other state agency is reflected as other assets since it is not available to meet current obligations. This cash is used to purchase capital assets and for major repairs and maintenance expenses. Cash held by other state agency is classified as cash for cash flow reporting purposes.

(e) Net Assets

Net assets are classified in the following components: invested in capital assets and unrestricted net assets. Invested in capital assets consist of capital assets, net of accumulated depreciation. Unrestricted net assets consist of all other net assets not included in invested in capital assets.

(f) Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Significant items subject to such estimates and assumptions include the valuation of receivables, capital assets, and postretirement liability. Actual results could differ from those estimates.

(3) Budgeting

The Authority's operations are subject to a comprehensive budget. Estimated revenues and expenses are provided to B&F for accumulation with budgeted amounts of the other state departments and offices. Those accumulated estimated revenues and expenses are provided to the State legislature for approval. Once approved by the legislature, the estimates are provided to the Governor of the State for final approval. Budgeted revenues are estimates of rentals, commissions, and other revenues to be received during the year. Budgeted expenses are estimates of expenditures to be made.

(4) Cash

(a) Cash in State Treasury

The State maintains a cash pool that is used by various state departments and agencies including the Authority. The amount reported as cash in State Treasury in the accompanying statement of net assets reflects the Authority's relative position in the State's cash pool. For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on the daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being undercollateralized at times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The State Director of Finance (the Director) is responsible for the safekeeping of all monies paid into the State Treasury. The Director may invest any monies of the State, which, in the Director's judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions.

At June 30, 2009, the amount reported as cash in State Treasury reflects the Authority's relative position in the State's investment pool and amounted to $7,142,363. The Authority wrote down their amounts held in State Treasury by $649,862 during the year ended June 30, 2009.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk

The State's investment policy limits its investments to investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, banker's acceptances, money market funds, and student loan resource securities maintaining a Triple-A rating.

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. Further, excess SIPC coverage is provided by the firm's insurance policies. In addition, the State requires the institutions to set aside in safekeeping certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

Information relating to the cash in State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the cash pool (which includes the Authority's cash in State Treasury and cash held by other state agency) and collateralization of the cash pool balances, as well as custodial credit risk, interest rate risk, concentration of credit risk, and foreign currency risk, is included in the Comprehensive Annual Financial Report (CAFR) of the State.

The Authority's share of the State's investment pool, as summarized in the table below, is 0.7% at June 30, 2008 (amounts in thousands):

		Maturity (in years)		
	Fair value	**Less than 1**	**1 – 5**	**>5**
Investments – Primary Government:				
Student loan auction rate securities	$ 610,052	$ —	$ —	$ 610,052
Certificates of deposit	94,897	94,897	—	—
U.S. government securities	637,164	152,920	484,244	—
Repurchase agreements	13,557	13,150	407	—
	$ 1,355,670	$ 260,967	$ 484,651	$ 610,052
Investments – Fiduciary Funds:				
Student loan auction rate securities	$ 28,925	$ —	$ —	$ 28,925
Certificates of deposit	4,499	4,499	—	—
U.S. government securities	40,110	9,626	30,484	—
Repurchase agreements	643	623	20	—
	$ 74,177	$ 14,748	$ 30,504	$ 28,925

Information relating to the State's investment pool at June 30, 2009 will be included in the comprehensive annual financial report of the State when issued.

(b) Cash in Bank

At June 30, 2009, the carrying value of the Authority's cash in bank balance was $201,240 and the bank balance was $258,851. Of the bank balance at June 30, 2009, $8,851 was uninsured and uncollateralized. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it.

(5) Capital Assets

At June 30, 2009, capital assets consisted of the following:

	Balance at June 30, 2008	Additions	Deductions	Transfers	Balance at June 30, 2009
Stadium structure	$ 98,563,903	$ —	$ —	$ 21,545	$ 98,585,448
Equipment, furniture, and fixtures	6,763,798	1,183,583	(19,275)	—	7,928,106
	105,327,701	1,183,583	(19,275)	21,545	106,513,554
Less accumulated depreciation for:					
Stadium structure	(73,501,463)	(3,938,171)	—	—	(77,439,634)
Equipment, furniture, and fixtures	(6,240,532)	(248,941)	19,275	—	(6,470,198)
Total accumulated depreciation	(79,741,995)	(4,187,112)	19,275	—	(83,909,832)
Total depreciable capital assets, net	25,585,706	(3,003,529)	—	21,545	22,603,722
Land and land improvements	11,518,621	—	—	—	11,518,621
Construction in progress	1,589,220	10,148,191	—	(21,545)	11,715,866
Total capital assets, net	$ 38,693,547	$ 7,144,662	$ —	$ —	$ 45,838,209

Depreciation expense amounted to $4,187,112 for the fiscal year ended June 30, 2009.

(6) Employee Benefits

(a) Employees' Retirement System of the State of Hawaii

All eligible employees of the Authority are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor, and disability benefits with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree’s original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.).

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

Contributory Plan

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. The Authority may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years of credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

Hybrid Plan

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving 5 years of credited service. The Authority may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

Noncontributory Plan

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Authority is required to make all contributions for these members. Employees may retire with full benefits at age 62 and 10 years of credited service or age 55 and 30 years of credited service or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. Employers contribute 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increase, as of July 1, 2008, to 19.70% for police officers and firefighters, and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The required pension contributions by the Authority for the years ended June 30, 2009, 2008, and 2007 were $298,507, $243,750, and $226,700, respectively, which equal the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Authority.

The ERS issues a CAFR that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

(b) Postemployment Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with over 25 years of service, the State pays the entire healthcare premium.

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self-plan. For employees hired after June 30, 2001, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire healthcare premium.

For active employees, the employees' contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

Measurement of the actuarial valuation and the annual required contribution (ARC) is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Authority. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contribution for the year ended June 30, 2009 was $176,602, which represented 36% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of $489,510.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2009:

Balance at June 30, 2008	$	272,742
Additions		472,801
Deletions		(176,602)
Balance at June 30, 2009		568,941
Less current portion		193,000
	$	375,941

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 96805-2121

(c) Deferred Compensation

The State established a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code, which enables State employees to defer a portion of their compensation. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying financial statements.

(d) Accrued Vacation

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarter working days for each month of service up to 720 hours at calendar year-end, and is convertible to pay upon termination of employment.

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2009:

Balance at June 30, 2008	$ 446,298
Additions	19,512
Deletions	(1,860)
Balance at June 30, 2009	463,950
Less current portion	208,680
	$ 255,270

(e) Accrued Sick Leave

Full-time employees are credited with sick leave at a rate of one and three-quarter days per month of service. Unused sick leave may be accumulated without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment. As such, no liability is recorded for accumulated unused sick leave. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave at June 30, 2009 amounted to approximately $1,386,500.

(7) Stadium Special Account

Contracts with licensees of the Authority and the related ticket sales are controlled in the Stadium Special Account. This account's cash balance and liabilities to third parties, net of amounts owed to the Authority are included in the accompanying statement of net assets and amounted to $132,240 at June 30, 2009. The activity in the account is included in the accompanying statement of revenues, expenses, and change in net assets only as it relates to the Authority's rentals from attractions, expense reimbursements from users, and other miscellaneous transactions (i.e., excludes ticket sales proceeds held on behalf of the licensees).

(8) Commitments and Contingencies

The Authority is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Authority's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund. The State is self-insured for substantially all perils, including workers' compensation.

(9) Special Fund Assessments

In accordance with the HRS, the Authority has been assessed amounts to support the State's central administrative services. The assessments are based upon a percentage of the Authority's estimated revenues and expenses for the fiscal year. Assessments amounted to $530,504 for the fiscal year ended June 30, 2009.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

KPMG

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii:

We have audited the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2009, and have issued our report thereon dated March 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 16, 2010.

This report is intended solely for the information and use of the Auditor, State of Hawaii, and the Board of Directors and management of the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 16, 2010