KPMG

HAWAII TOURISM AUTHORITY

(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2013

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – Tourism Special Fund and Convention Center Enterprise Special Fund	14
Statement of Fiduciary Net Position – Fiduciary Fund	15
Notes to Financial Statements	16

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hawaii Tourism Authority, a component unit of the State of Hawaii (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hawaii Tourism Authority as of June 30, 2013, and the respective changes in its financial position and the respective budgetary comparisons thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 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 an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

December 6, 2013
Honolulu, Hawaii

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis
June 30, 2013

The Hawaii Tourism Authority (the Authority) was established on January 1, 1999 by Act 156, Session Laws of Hawaii 1998. The Authority is responsible for developing and implementing a strategic tourism marketing plan to enhance and promote the tourism industry in the State of Hawaii. As management of the Authority, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013. This discussion and analysis is designed to assist the reader in focusing on the Authority's significant financial issues and activities and to identify any significant changes in the Authority's financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances. These statements include all assets and liabilities, using the full-accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the fiscal year's revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, assets, liabilities, and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods:

- *The Statement of Net Position* presents all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator to determine whether the financial position of the Authority is improving or deteriorating.
- *The Statement of Activities* presents information showing the Authority's revenues and expenses for the fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown, net of related program revenue. This statement shows the extent to which the various functions depend on taxes and nonprogram revenues for support.

Fund Financial Statements

A fund is a grouping of related accounts, which is used to maintain control over resources that have been segregated for specific activities or objectives.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities of the government-wide financial statements. By doing so, readers may better understand

the long-term impact of the Authority's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation on pages 12 and 13 to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains two governmental funds (Tourism Special Fund and Convention Center Enterprise Special Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each of these funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for by the Authority in an agency capacity.

Notes to Basic Financial Statements

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

Condensed Financial Information

The following are summaries from the Authority's government-wide financial statements as of and for the years ended June 30, 2013 and 2012 (in thousands):

Condensed Statements of Net Position

June 30, 2013 and 2012

		2013	2012
Assets:			
Current assets	$	18,325	24,514
Capital assets		230,500	235,760
Investments – noncurrent		31,434	22,971
Other assets		10,809	12,500
Total assets	$	291,068	295,745
Liabilities:			
Current liabilities	$	24,672	23,171
Other noncurrent liabilities		263,477	276,169
Total liabilities	$	288,149	299,340
Net position:			
Invested in capital assets, net of related debt	$	(3,760)	(10,891)
Restricted		6,679	7,296
Total net position	$	2,919	(3,595)

(Continued)

Condensed Statements of Activities

Years ended June 30, 2013 and 2012

	2013	2012
Expenses:		
Hawaii Convention Center management:		
Contract	$ 15,254	17,023
Interest on debt obligation to State Department of Budget and Finance	13,666	14,388
Depreciation	7,372	7,306
Payroll	237	211
General and administrative	374	424
Other	139	135
	37,042	39,487
Tourism and marketing:		
Contract	65,256	65,778
Payroll	2,791	2,695
General and administrative	524	488
Other	58	278
	68,629	69,239
Total expenses	105,671	108,726
Revenues:		
Program:		
Charges for services	9,462	9,607
General:		
Transient accommodations tax	104,000	104,641
Other	(277)	442
Total revenues	113,185	114,690
Transfers	(1,000)	(1,000)
Change in net position	6,514	4,964
Beginning net position	(3,595)	(8,559)
Ending net position	$ 2,919	(3,595)

Financial Analysis

Current Assets decreased by $6.2 million, or 25%, primarily due to decreases in short-term investments and due from transient accommodations tax receivable of $5.0 million and $3.4 million, respectively, partially offset by an increase in cash of $2.0 million. Cash is primarily available for current contracts.

(Continued)

Capital Assets decreased by $5.3 million, or 2%, due to the recording of current year depreciation expense of $7.4 million offset by current year capital asset additions of $2.2 million. A substantial portion of the Authority's capital asset additions pertains to renovations and improvements to the Hawaii Convention Center (the Center). See note 5 to the financial statements.

Other Assets decreased by $1.7 million, or 14%. This represents unspent funds held by SMG and the Department of Accounting and General Services (DAGS) for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects for the Center.

Noncurrent Investments increased by $8.5 million, or 37%, due to an increase in purchases of investments with longer maturity lives.

Current Liabilities increased by $1.5 million, or 6%, primarily due to an increase in vouchers payable of $1.1 million resulting from the timing of cost incurrence and payments and an increase in amounts due to the State Department of Budget and Finance (Budget and Finance) of $0.4 million. Amounts due to Budget and Finance pertain to current year reimbursements due to Budget and Finance for debt service payments made on general obligation bonds whose proceeds were used to fund the construction of the Center.

Other Noncurrent Liabilities consist primarily of amounts due to Budget and Finance subsequent to the ensuing year.

Net position went from a net deficit of $3.6 million at June 30, 2012 to a net position of $2.9 million at June 30, 2013.

During the period from October 1992 through April 1998, the State of Hawaii (State) issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is appropriated by the Legislature from general funds. The Authority's statutorily required Reimbursable General Obligation payments are funded by an allocated portion of the State's transient accommodations tax (TAT) revenue and revenue generated from the operation of the Center.

Effective July 1, 2002, the Convention Center Fund was established by Act 253. In accordance with Act 253, the Convention Center Fund was placed within the Authority and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

As noted above, effective July 1, 2002, Act 253 established the Convention Center Fund, which provided the Authority the ability to reimburse Budget and Finance for debt service payments with funds from the Center's operations and an allocated portion of the State's TAT. Management believes the Authority did not have the legal capacity over these funds, or the means to budget for payment of the debt service obligations during the period from July 1, 2000 to June 30, 2002.

(Continued)

Subsequent to June 30, 2002, Budget and Finance informed the Authority that it is required to meet the debt service obligations on the bonds for the period from July 1, 2000 to June 30, 2002. The Authority did not believe it was required to meet these obligations for periods prior to the establishment of the Convention Center Fund and, accordingly, had not recorded this liability in its financial statements. This matter was being contested with Budget and Finance.

Budget and Finance contended that its appropriations from the State's General Fund during the period from July 1, 2000 to June 30, 2002 did not include TAT funds specifically allocated for the purpose of servicing the periods' debt service obligations on the bonds.

There is no dispute that from June 30, 2000 and July 1, 2002 the TAT receipts intended for debt service, which prior to July 1, 2000 was allocated to the Convention Center Authority (Chapter 206X, HRS), and subsequent to June 30, 2002 to the Authority (pursuant to HRS Section 237D), were being collected and received by the General Fund. During this period, debt services to bondholders were made. What was being disputed was whether the Authority was obligated to reimburse Budget and Finance for the debt service payments made during the period from July 1, 2000 to June 30, 2002.

On August 4, 2011, the State Attorney General opined in favor of Budget and Finance and the Authority increased its liability to Budget and Finance by $52,865,435, consisting of principal and interest of $12,690,000 and $40,175,435, respectively, at June 30, 2011.

Pursuant to HRS Section 26-7, the Attorney General is responsible for administering and furnishing legal opinions to the Governor and the various state departments and agencies within the Executive Branch, including the HTA. Although the HTA board of directors does not agree with the legal opinion of the Attorney General, it must comply with its opinion as the official legal entity statutorily responsible for rending legal opinions to all state departments and agencies within the Executive branch.

On September 28, 2011, the repayment schedule between the Authority and Budget and Finance was amended to incorporate the repayment of the $52,865,435 by extending the payment term from 2025 to 2027. There were no changes made to the Authority's annual amount of principal and interest payments.

Revenues decreased by $1.5 million, or 1%, due to a decrease in transient accommodations tax revenue of $0.6 million and a decrease of $0.7 million from the change in fair value of investments. The decrease in transient accommodations tax revenue is attributed to a cap in transient accommodation tax revenue deposited into the Convention Center Fund of $33 million per fiscal year. Effective July 1, 2012, the maximum amount of funding of transient accommodation tax revenue deposited into the Convention Center Fund was changed from a calendar-year basis to a fiscal-year basis.

Expenses decreased by $3.1 million, or 3%, primarily due to a decrease in contract expenses in the current year as compared to the prior fiscal year.

Financial Analysis of the Authority's Individual Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

(Continued)

Governmental Funds

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Authority's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of $45.0 million, an increase of $1.1 million in comparison with the prior fiscal year. The Authority's entire fund balance is committed to indicate that it can only be used for specific purposes pursuant to formal action of the Legislature.

The Tourism Special Fund is used to account for functions related to the development and promotion of the tourism industry. At the end of the current fiscal year, committed fund balance of the Tourism Special Fund was $32.7 million, an increase of 1% from the prior fiscal year. As a measure of the Tourism Special Fund's liquidity, it may be useful to compare committed fund balance to total fund expenditures. Committed fund balance represents 55% of total Tourism Special Fund's expenditures, an increase of 3% from the prior fiscal year.

The Convention Center Enterprise Special Fund was established by Act 253, Session Laws of Hawaii 2002 (Act 253) to receive all revenues generated from the operation of the Hawaii Convention Center and an allocated portion of the revenues received from the State of Hawaii's transient accommodations tax. Funds collected by the Convention Center Enterprise Special Fund are used to pay all expenses arising from the use and operation of the Hawaii Convention Center and to reimburse the State Department of Budget and Finance for debt service payments on general obligation bonds issued for construction of the Hawaii Convention Center. In accordance with Act 253, the operations of the Convention Center Enterprise Special Fund are included in the Authority's financial statements. At the end of the current fiscal year, the Convention Center Enterprise Special Fund had a committed fund balance of $12.3 million.

(Continued)

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2013, the Authority had $230.5 million invested in capital assets as shown in the following table. There was a net decrease (additions, deductions, and depreciation) of $5.3 million from the end of the prior fiscal year.

	(In thousands) 2013	2012
Land	$ 131,497	131,497
Buildings and improvements	211,125	211,239
Furniture, fixtures, and equipment	4,688	4,846
Construction in progress	2,114	—
	349,424	347,582
Accumulated depreciation	118,924	111,822
Total	$ 230,500	235,760

Additional information regarding the Authority's capital assets can be found in note 5 to the financial statements.

Indebtedness

As of June 30, 2013, the Authority had $281.1 million of amounts due to the State Department of Budget and Finance compared to $293.8 million as of June 30, 2012, which represents a decrease of 4% from prior year. Additional information regarding the Authority's indebtedness can be found in note 8 to the financial statements.

Economic Factors and Current Known Facts

Although the global economy continues down its path toward recovery, economic uncertainties remain. Economic conditions have impacted fiscal policy in the State, resulting in a limited budget for the Authority.

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

Statement of Net Position

June 30, 2013

Assets

Current assets:	
Cash	$ 12,610,227
Investments	4,498,991
Due from Hawaii Convention Center	1,109,629
Other current assets	106,680
Total current assets	18,325,527
Capital assets:	
Land	131,496,508
Other capital assets, net	99,003,977
	230,500,485
Investments	31,433,914
Other assets	10,808,525
Total noncurrent assets	272,742,924
Total assets	$ 291,068,451

Liabilities and Net Position

Current liabilities:	
Vouchers payable	$ 4,662,372
Due to State Department of Budget and Finance	19,782,109
Accrued wages	104,514
Accrued vacation	123,512
Total current liabilities	24,672,507
Accrued vacation	351,840
Postemployment liability	1,824,198
Due to State Department of Budget and Finance, net of current portion	261,300,724
Total liabilities	$ 288,149,269
Commitments and contingencies	
Net position:	
Invested in capital assets, net of related debt	$ (3,759,804)
Restricted	6,678,986
Total net position	$ 2,919,182

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

Statement of Activities

Year ended June 30, 2013

	Functional programs		
	Hawaii Convention Center management	**Tourism and marketing**	**Total**
Expenses:			
Contract expenses	$ 15,254,201	65,256,158	80,510,359
Interest on debt obligation to State Department of Budget and Finance	13,665,917	—	13,665,917
Depreciation	7,371,512	—	7,371,512
Payroll	237,518	2,790,883	3,028,401
General and administrative	374,095	523,976	898,071
Other	138,798	57,734	196,532
Total expenses	37,042,041	68,628,751	105,670,792
Program revenues – charges for services	9,461,610	—	9,461,610
Net expenses	$ 27,580,431	68,628,751	96,209,182
General revenues:			
Transient accommodations tax			104,000,000
Interest			374,820
Net decrease in the fair value of investments			(651,469)
Total general revenues			103,723,351
Transfers to other state departments			(1,000,000)
Change in net position			6,514,169
Net position at July 1, 2012			(3,594,987)
Net position at June 30, 2013			$ 2,919,182

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

Balance Sheet – Governmental Funds

June 30, 2013

Assets	Tourism Special Fund	Convention Center Enterprise Special Fund	Total Governmental Funds
Cash in bank	$ 7,432,404	5,177,823	12,610,227
Investments	29,791,601	6,141,304	35,932,905
Due from Hawaii Convention Center	—	1,109,629	1,109,629
Other assets	91,440	15,240	106,680
Total assets	$ 37,315,445	12,443,996	49,759,441
Liabilities and Fund Balances			
Liabilities:			
Vouchers payable	$ 4,571,391	90,981	4,662,372
Accrued wages and employee benefits payable	88,978	15,536	104,514
Total liabilities	4,660,369	106,517	4,766,886
Fund balances:			
Committed	32,655,076	12,337,479	44,992,555
Total liabilities and fund balances	$ 37,315,445	12,443,996	
Amounts reported in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds			230,500,485
Difference between accounting for amounts held by SMG and DAGS for future capital expenditures in the statement of net position and in the governmental funds			10,808,525
Long-term liabilities, including unmatured debt obligation to State Department of Budget and Finance, are not due and payable in the current period and, therefore, are not reported in the governmental funds			(234,260,289)
Accrued interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the governmental funds			(46,822,544)
Accrued vacation and postemployment liability reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in the governmental funds			(2,299,550)
Net position of governmental activities			$ 2,919,182

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds

Year ended June 30, 2013

	Tourism Special Fund	Convention Center Enterprise Special Fund	Total Governmental Funds
Revenues:			
Transient accommodations tax	$ 71,000,000	33,000,000	104,000,000
Hawaii Convention Center operations	—	9,461,610	9,461,610
Interest	327,669	47,151	374,820
Net decrease in the fair value of investments	(427,513)	(223,956)	(651,469)
Total revenues	70,900,156	42,284,805	113,184,961
Expenditures:			
Contract expenditures	65,256,158	15,675,556	80,931,714
Interest on debt obligation to State Department of Budget and Finance	—	26,427,617	26,427,617
Personnel	2,382,045	199,288	2,581,333
Administrative and general	523,976	374,095	898,071
Other	57,734	138,798	196,532
Total expenditures	68,219,913	42,815,354	111,035,267
Excess (deficiency) of revenues over expenditures	2,680,243	(530,549)	2,149,694
Other financing sources (uses):			
Transfers in (out)	(1,405,833)	1,405,833	—
Transfers to other state departments	(1,000,000)	—	(1,000,000)
Total other financing sources (uses)	(2,405,833)	1,405,833	(1,000,000)
Excess of revenues over expenditures and other financing sources (uses)	274,410	875,284	1,149,694
Fund balances at July 1, 2012	32,380,666	11,462,195	
Fund balances at June 30, 2013	$ 32,655,076	12,337,479	
Amounts reported in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital expenditures for the year			(5,259,215)
Difference between accounting for cash paid to SMG and DAGS for future capital expenditures in the statement of activities and in the governmental funds			(1,690,942)
Repayment of debt obligation principal is an expenditure in the government funds, but the payment reduces long-term liabilities in the statement of net position			12,390,000
Difference between accounting for interest expense in the statement of activities and in the governmental funds			371,700
Accrued vacation and postemployment liability reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds			(447,068)
Change in net position			$ 6,514,169

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

Statement of Revenues and Expenditures – Budget and Actual
(Budgetary Basis) – Tourism Special Fund and Convention Center Enterprise Special Fund

Year ended June 30, 2013

	Tourism Special Fund				Convention Center Enterprise Special Fund			
	Original budget	Final budget	Actual (budgetary basis)	Variance favorable (unfavorable)	Original budget	Final budget	Actual (budgetary basis)	Variance favorable (unfavorable)
Revenues:								
Transient accommodations tax	$ 87,070,451	87,071,017	70,000,000	(17,071,017)	33,000,000	33,000,000	33,000,000	—
Hawaii Convention Center operations	—	—	—	—	19,137,584	19,142,374	8,771,090	(10,371,284)
Interest	—	—	249,156	249,156	—	—	137,061	137,061
Other	—	—	2,071	2,071	—	—	441,416	441,416
Total revenues	87,070,451	87,071,017	70,251,227	(16,819,790)	52,137,584	52,142,374	42,349,567	(9,792,807)
Expenditures	84,664,618	84,665,184	65,746,346	18,918,838	54,003,184	54,007,974	42,741,266	(11,266,708)
Excess (deficiency) of revenues over expenditures	2,405,833	2,405,833	4,504,881	2,099,048	(1,865,600)	(1,865,600)	(391,699)	1,473,901
Other financing sources (uses)	(2,405,833)	(2,405,833)	(2,405,833)	—	1,865,600	1,865,600	1,405,833	(459,767)
Excess of revenues over expenditures and other financing sources (uses)	$ —	—	2,099,048	2,099,048	—	—	1,014,134	1,014,134

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

Statement of Fiduciary Net Position – Fiduciary Fund

June 30, 2013

		Trust fund
Assets:		
Cash	$	11,985
Investments		4,988,015
Liabilities:		
Deposits payable		5,000,000
Net position	$	—

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Hawaii Tourism Authority (the Authority), a discretely presented component unit of the State of Hawaii (the State), have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting and presentation policies used in the preparation of such financial statements.

(a) The Financial Reporting Entity

The Authority was established on January 1, 1999 by Act 156, Session Laws of Hawaii 1998, and was placed within the Department of Business, Economic Development, and Tourism, State of Hawaii, for administrative purposes only. The Authority is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (Center) were transferred to the Authority from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the Authority. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The Authority is governed by a board of directors comprising 12 voting members. The governor appoints the 12 voting members.

The accompanying basic financial statements present the financial position and the changes in financial position of the Authority and do not purport to, and do not, present fairly the financial position and changes in financial position of the State. The State Comptroller publishes financial statements for the State annually, which includes the Authority's financial activities.

(b) Government-Wide and Fund Accounting

The government-wide financial statements, which are the statement of net position and the statement of activities, report information of all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Resources that are dedicated internally are reported as general revenues rather than program revenues.

(Continued)

The Authority uses funds to report on its financial position and the results of its operations in its fund financial statements. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which the resources are to be spent and the means by which spending activities are controlled.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide statement of net position as of June 30, 2013 reports restricted net position of $6,678,986, which is restricted by enabling legislation.

Governmental Funds

Governmental funds are those through which the governmental functions of the Authority are financed. The Authority's major funds are as follows:

Tourism Special Fund – The Tourism Special Fund (Tourism Fund) is used to account for functions related to the development and promotion of the tourism industry.

Convention Center Enterprise Special Fund – The Convention Center Enterprise Special Fund (Convention Center Fund) is used to account for functions related to the operation and management of the Center.

Fiduciary Fund

The Fiduciary Fund accounts for assets held by the Authority in a fiduciary capacity for the Tourism Emergency Trust Fund.

(c) Basis of Accounting

The government-wide statement of net position and statement of activities are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included in the statement of net position.

The modified-accrual basis of accounting is followed for the governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Measurable" means the amounts are determinable. "Available" means the amounts are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Authority considers receivables collected within 60 days after year-end to be available and recognizes them as revenues

of the current year. Expenditures are generally recognized under the modified-accrual basis of accounting when the related fund liability is incurred.

(d) Transient Accommodations Tax

In accordance with Sections 201B-11 and 237D-6.5, Hawaii Revised Statutes (HRS), the primary source of funding for the Authority's Tourism Fund and Convention Center Fund operations is the transient accommodations tax (TAT) collected by the State. The TAT is assessed at a rate of 9.25% on the gross rental proceeds derived from providing transient accommodations.

The amount of TAT deposited into the Authority's Tourism Fund and Convention Center Fund is derived from 34.20% and 17.30%, respectively, of the 9.25% TAT rate. If the amount of TAT revenues deposited into the Convention Center Fund exceeds $33,000,000 in any fiscal year, revenues collected in excess of $33,000,000 shall be deposited into the State's General Fund. If the amount of TAT revenues deposited into the Tourism Fund exceeds $71,000,000 in any fiscal year, revenues collected in excess of $71,000,000 shall be deposited into the State's General Fund.

Effective July 1, 2013, the maximum amount of funding of TAT revenues that may be deposited into the Convention Center Fund and the Tourism Fund is $33,000,000 and $82,000,000, respectively.

Of the total TAT revenues deposited into the Tourism Fund, the first $1,000,000 is deposited to the Department of Land and Natural Resources (ending June 30, 2013); 0.5% is transferred to a subaccount in the Tourism Fund to provide funding for safety and security budget, in accordance with the Hawaii tourism strategic plan 2005 – 2015; and beginning July 1, 2007, funds shall be deposited into the tourism emergency trust fund, established in Section 201B-10, in a manner sufficient to maintain a fund balance of $5,000,000 in the tourism emergency trust fund. Further, beginning on July 1, 2012 and ending on June 30, 2015, $2,000,000 shall be expended from the Tourism Fund for development and implementation of initiatives to take advantage of expanded visa programs and increased travel opportunities for international visitors to Hawaii.

Effective July 1, 2013, of the total TAT revenues deposited into the Tourism Fund, $1,000,000 shall be allocated for the operation of a Hawaiian center and the museum of Hawaiian music and dance at the Center. Further, of the excess TAT revenues deposited into the State general fund, $3,000,000 shall be allocated subject to mutual agreement of the board of the Department of Land and Natural Resources and the board of the Authority in accordance with the Authority's strategic plan for: the protection, preservation, and enhancement of natural resources important to the visitor industry; planning, construction, and repaid of facilities; and operation and maintenance costs of public lands connected with enhancing the visitor experience.

(e) Investments

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, based on quoted market prices.

(f) Capital Assets

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the statement of net position. Capital assets acquired by purchase are recorded at cost. Donated fixed assets are valued at the estimated fair market value on the date received. Maintenance, repairs, minor replacements, and renewals are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Capital assets are defined as assets with an initial individual cost of $5,000 or more for furniture, fixtures, and equipment and $100,000 or more for buildings and improvements and are depreciated on the straight-line method over the estimated useful lives of the respective assets (buildings and improvements – 30 years and furniture, fixtures, and equipment – 5 to 7 years). Depreciation is recorded on capital assets in the government-wide statement of activities.

(g) Accrued Vacation

Employees hired on or before July 1, 2001 earn vacation at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn vacation at rates ranging between one and two working days for each month of service, depending upon the employees' years of service and job classifications. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements, or expected to be paid with expendable available financial resources.

(h) Marketing Contractors

The Authority contracts with the following five major marketing contractors to provide tourism, planning, implementation, and other services to assist the Authority in executing its marketing mission:

Hawaii Visitors and Convention Bureau – North America
a.Link LLC, DBA Hawaii Tourism Japan – Japan
Aviareps Tourism, DBA Hawaii Tourism Europe – Europe
Aviareps Marketing Gardens, DBA various Hawaii Tourism Other Asia – Other Asia
The Walshe Group, DBA Hawaii Tourism Oceania – Australia and New Zealand

(i) Center Contract

The Authority contracts with SMG, a private contractor, to manage and operate the Center. SMG is on a cost-reimbursement contract whereby it is reimbursed by the Authority for costs incurred in operating the Center. In accordance with Act 253, Session Laws of Hawaii 2002 (Act 253), SMG also assumed responsibility for the Center's sales and marketing efforts effective January 1, 2003. The Authority's contract with SMG extends through June 30, 2006 with extension options. In June 2005, the Authority approved SMG's option to extend the term of the agreement through June 30, 2011. In July 2011, the Authority extended the term of the agreement through June 30,

2013. In July 2013, the Authority extended the term of the agreement through December 31, 2013. The management fee for the year ended June 30, 2013 amounted to $293,333.

The Authority contracted AEG, a private contractor, to manage and operate the Center effective January 1, 2014 through December 31, 2018.

(j) Intrafund and Interfund Transactions

Transfers of financial resources within the same fund are eliminated. Transfers from funds receiving revenues to funds through which the resources are to be expended and funds disbursed to fiduciary funds are recorded as transfers.

(k) Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Reclassifications

Certain 2012 amounts were reclassified to conform to the 2013 presentation. Such reclassifications had no effect on previously reported statement of activities.

(m) Recently Adopted Accounting Standards

Effective July 1, 2012, the Authority implemented the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The implementation of GASB Statement No. 60 does not have a significant impact on the financial statements for the fiscal year ended June 30, 2013.

Effective July 1, 2012, the Authority implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. However, it does not identify any additional items that should be recognized within these element classifications. GASB Statement No. 63 only applies to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. The adoption of GASB Statement No. 63 resulted in a change in the presentation of the statement of net assets to the statement of net position and the term net assets is changed to net position throughout the financial statements. The implementation of GASB Statement No. 63 did not have a significant impact on the financial statements for the fiscal year ended June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will become effective for financial statements for periods beginning after

December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority is currently evaluating the impact that GASB Statement No. 65 will have on its financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* Statement No. 68 establishes new standards for accounting for pensions by employers whose employees are provided with pensions through pension plans administered through trusts, or equivalent arrangements, that meet the characteristics defined in the Statements and addresses accounting and financial reporting issues of certain nonemployer entities that contribute to such plans. Statement No. 68 will be effective for periods beginning after June 30, 2014. The Authority has not yet determined the impact of this standard on its financial statements and disclosures.

(2) Budgeting and Budgetary Control

The budget of the Authority is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) – Tourism Fund and Convention Center Fund are those estimates as compiled and reviewed by the Authority.

The final legally adopted budget in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – Tourism Fund and Convention Center Fund represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

Budgetary control is maintained at the appropriation line item level as established in the appropriations act. The governor is authorized to transfer appropriations within a state agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Authority. During the fiscal year ended June 30, 2013, there were no expenditures in excess of appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, Tourism Fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the Tourism Fund and Convention Center Fund are presented in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – Tourism Fund and Convention Center Fund. The Authority's annual budget is prepared on the

modified-accrual basis of accounting with several differences, principally related to (1) encumbrance of purchase orders and contract obligations and (2) accrued expenditures.

A reconciliation of the budgetary to GAAP basis operating results of the Tourism Fund and Convention Center Fund for the fiscal year ended June 30, 2013 is as follows:

	Tourism Fund	Convention Center Fund
Excess (deficiency) of revenues over expenditures and other financing sources (uses) – budgetary basis	$ 2,099,048	1,014,134
Reserved for encumbrances	29,571,537	89,500
Expenditures for liquidation of prior fiscal year encumbrances	(29,928,267)	(43,273)
Net accrued revenues and expenditures	(1,467,908)	(185,077)
Excess of revenues over expenditures and other financing sources (uses) – GAAP basis	$ 274,410	875,284

(3) Cash

(a) Cash in Bank

The Authority requires that the financial institutions pledge collateral based on the daily available bank balances. All securities pledged as collateral are held by the Authority's fiscal agents in the name of the Authority. At June 30, 2013, the Authority's deposits with the financial institution totaled $12,622,212 ($12,610,227 for the Governmental Funds and $11,985 for the Fiduciary Fund) and had a corresponding bank balance of $13,114,045.

(b) 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. As of June 30, 2013, all of the Authority's bank balance of $13,114,045 was collateralized. No cash was exposed to custodial credit risk resulting from uninsured and uncollateralized amounts.

(4) Investments

At June 30, 2013, the Authority had the following investments:

Investment type	Fund	Fair value	Maturity (In years) Less than 1	Maturity (In years) 1 – 5
U.S. federal agency notes	Tourism Fund	$ 25,775,201	4,498,991	21,276,210
U.S. Treasury notes	Tourism Fund	4,016,400	—	4,016,400
U.S. federal agency notes	Convention Center Fund	6,141,304	—	6,141,304
Total investments		$ 35,932,905	4,498,991	31,433,914

(Continued)

At June 30, 2013, the Authority held the following investments in a fiduciary capacity:

Investment type		Fair value	Maturity (In years) Less than 1	1 – 5
U.S. Treasury notes	$	903,879	903,879	—
U.S. federal agency notes		4,084,136	—	4,084,136
Total investments	$	4,988,015	903,879	4,084,136

(a) Interest Rate Risk

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

(b) Credit risk

The Authority's investment policy limits its investments to investments in U.S. Treasury securities, certificates of deposit, U.S. government or agency obligations, commercial paper, federally insured savings accounts, and money market funds.

(c) Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Authority or 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 Authority's and the State's investments are held at broker/dealer firms that are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the Authority and the State require the institutions to set aside, in safekeeping, certain types of securities to collateralize repurchase agreements. The Authority and the State monitor the market value of these securities and obtain additional collateral when appropriate.

(Continued)

(5) Capital Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2013:

	Balance at 2012	Additions	Deductions	Balance at June 30, 2013
Capital assets not being depreciated:				
Land	$ 131,496,508	—	—	131,496,508
Construction in progress	—	2,113,704	—	2,113,704
Total capital assets not being depreciated	131,496,508	2,113,704	—	133,610,212
Other capital assets:				
Buildings and improvements	211,239,084	—	(113,959)	211,125,125
Furniture, fixtures, and equipment	4,846,336	91,660	(249,614)	4,688,382
Total other capital assets	216,085,420	91,660	(363,573)	215,813,507
Less accumulated depreciation for:				
Buildings and improvements	107,905,969	7,037,504	(20,892)	114,922,581
Furniture, fixtures, and equipment	3,916,259	334,008	(249,614)	4,000,653
Total accumulated depreciation	111,822,228	7,371,512	(270,506)	118,923,234
Total other capital assets, net	104,263,192	(7,279,852)	(93,067)	96,890,273
Total capital assets, net	$ 235,759,700	(5,166,148)	(93,067)	230,500,485

Depreciation expense charged to the Hawaii Convention Center management function amounted to $7,371,512 for the fiscal year ended June 30, 2013.

(6) Other Assets

Other assets represent unspent funds held by SMG and DAGS for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects. At June 30, 2013, unspent funds amounted to $10,808,525.

(7) Accrued Vacation

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2013:

Balance at June 30, 2012	$	466,132
Additions		162,370
Deletions		(153,150)
Balance at June 30, 2013		475,352
Less current portion		(123,512)
	$	351,840

(8) Due to State Department of Budget and Finance

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's TAT revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and State Department of Budget and Finance (Budget and Finance), respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253. In accordance with Act 253, the Convention Center Fund was placed within the Authority and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

(Continued)

The creation of the Convention Center Fund provided the Authority the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the Authority by the CCA. The terms of the payment plan require the Authority to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. The payment plan is not directly related to the actual debt service on the general obligation bonds issued to finance the Hawaii Convention Center. The Authority's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2013, the outstanding principal and aggregate interest amounts required to be reimbursed by the Authority were $234,260,289 and $135,745,741, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows:

	Principal	Interest	Total
2014	$ 13,135,000	13,294,217	26,429,217
2015	13,920,000	12,506,117	26,426,117
2016	14,755,000	11,670,917	26,425,917
2017	15,645,000	10,785,617	26,430,617
2018	16,580,000	9,846,917	26,426,917
2019 – 2023	99,080,000	33,063,087	132,143,087
2024 – 2028	61,145,289	44,578,870	105,724,159
	$ 234,260,289	135,745,742	370,006,031

For the year ended June 30, 2013, the Authority was required to reimburse Budget and Finance $26,427,617 for principal and interest. For the year ended June 30, 2013, the Authority recorded $13,665,917 of interest expense on debt obligation to the Budget and Finance in the statement of activities. At June 30, 2013, the statement of net position reflected the total long-term liabilities of the Authority as follows:

Current principal	$ 13,135,000
Current interest	6,647,109
Current portion	19,782,109
Noncurrent principal	221,125,289
Noncurrent interest	40,175,435
Noncurrent portion	261,300,724
Total	$ 281,082,833

(Continued)

Total due to Budget and Finance activity during the year was as follows:

July 1, 2012	$ 293,844,533
Additions	13,665,917
Reductions	(26,427,617)
June 30, 2013	$ 281,082,833

(9) Employee Benefits

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

All eligible employees of the Authority are required by Chapter 88, 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 benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. 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 new members hired after June 30, 2012, the AFC is based on the five 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.). For new members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

(Continued)

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. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years 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.

New employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Hybrid Plan

Employees in the hybrid plan are required to contribute 6% of their salary and are fully vested for benefits upon receiving 5 years of credited service. 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%.

New employees in the hybrid plan hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service, or at age 60 with 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

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 years and 10 years of credited service or age 55 and 30 years of credited services or age 55 years 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.

(Continued)

These rates increased, as of July 1, 2008, to 19.70% for police officers and firefighters and 15.00% for all other employees. The rates further increased, as of July 1, 2012 to 22.00% for police officers and firefighters, and 15.50% for all other employees. Each year thereafter the rates will gradually increase to 25.00% for police officers and firefighters, and 17.00% 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, 2013, 2012, and 2011 were $251,000, $264,000, and $226,000, 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 comprehensive annual financial report 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 Hawaii Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer health benefits plans and a group life insurance benefits program for employees and retirees.

The State pays the EUTF a base monthly contribution for the health benefits plans of certain retired employees, including those who were hired before July 1, 1996 and retired after June 30, 1984, with ten or more years of credited service.

The State pays the EUTF one-half of the base monthly contribution for the health benefits plans of retired employees who were hired before June 30, 1996, and retired after June 30, 1984, with fewer than ten years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 1996 but before July 1, 2001: (a) one-half of the base monthly contribution if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution if the employee retired with between fifteen and twenty-five years of credited service; and (c) one hundred percent of the base monthly contribution if the employee retired with twenty-five or more years of credited service.

The State pays the EUTF for the health benefits plans of retired employees who were hired after June 30, 2001: (a) one-half of the base monthly contribution for a self-only plan if the employee retired with between ten and fifteen years of credited service; (b) seventy-five percent of the base monthly contribution for a self-only plan if the employee retired with between fifteen and twenty-five years of

(Continued)

credited service; and (c) one hundred percent of the base monthly contribution for a self-only plan if the employee retired with twenty-five or more years of credited service.

The State pays the EUTF a base monthly contribution (currently $4.16) for each retired employee enrolled in the EUTF group life insurance plan

For active employees, the employee's 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) are made for the State as a whole and are 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, 2013 was $164,750, which represented 27% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of $602,598.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2013:

Balance at June 30, 2012	$	1,386,350
Additions		602,598
Deletions		(164,750)
Balance at June 30, 2013	$	1,824,198

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

(10) Commitments and Contingencies

(a) Accumulated Sick Leave

Employees hired on or before July 1, 2001 earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn sick leave credit at the rate of one and one-quarter or one and three-quarters working days for each month of service depending upon the employees' years of service and job classification. Sick leave credits may accumulate without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. 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. At June 30, 2013, accumulated sick leave approximated $744,458 for the Authority.

(Continued)

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report on Internal Control over Financial Reporting and on 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, in accordance with the 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, the financial statements of the Hawaii Tourism Authority, a component unit of the State of Hawaii (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon under date of December 6, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this Section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 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*.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 6, 2013
Honolulu, Hawaii