KPMG

HAWAII TOURISM AUTHORITY

(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

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

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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 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, 2011, which collectively comprise the Authority's basic financial statements 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 the 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.

In our opinion, the financial statements referred to in the first paragraph 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 2, 2012 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 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

February 2, 2012

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, 2011. 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 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.
- *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, 2011 and 2010 (in thousands):

Condensed Statements of Net Assets

June 30, 2011 and 2010

		2011	2010
Assets:			
Current assets	$	27,134	21,141
Capital assets		242,274	248,385
Investments – noncurrent		22,660	15,363
Cash held by SMG		11,737	9,729
Total assets	$	303,805	294,618
Liabilities:			
Current liabilities	$	24,276	21,955
Other noncurrent liabilities		288,088	299,463
Total liabilities	$	312,364	321,418
Net assets:			
Invested in capital assets, net of related debt	$	(16,066)	(20,985)
Restricted		7,507	(5,815)
Total net assets	$	(8,559)	(26,800)

(Continued)

		2011	2010
Revenues:			
Program:			
Charges for services	$	12,462	8,650
General:			
Transient accommodations tax		121,783	101,977
Other		429	591
Total revenues		134,674	111,218
Expenses:			
Convention center:			
Contract		19,723	18,694
Interest on debt obligation to State Department of Budget and Finance		15,070	15,713
Depreciation		7,339	7,391
Payroll		148	218
General and administrative		13	17
Settlement expense		—	52,865
		42,293	94,898
Tourism and marketing:			
Contract		68,401	59,336
Payroll		2,518	2,630
General and administrative		471	584
		71,390	62,550
Total expenses		113,683	157,448
Transfers		(2,750)	(978)
Change in net assets		18,241	(47,208)
Beginning net assets		(26,800)	20,408
Ending net assets	$	(8,559)	(26,800)

Financial Analysis

Current Assets increased by $6.0 million, or 28%, primarily due to a increase in short-term investments, due from transient accommodations tax receivable, due from Hawaii Convention Center, and other current assets of $4.9 million, $0.4 million, and $0.7 million, and $0.6 million, respectively. Cash is available for current contracts for marketing and product development.

Capital Assets decreased by $6.1 million, or 2%, due to the recording of current year depreciation expense of $7.3 million, partially offset by net current year additions and disposals of approximately $1.1 million. A

(Continued)

substantial portion of the Authority's capital asset additions pertains to renovations and improvements to the Hawaii Convention Center (the Center) (note 5 to the financial statements).

Cash Held by SMG increased by $2.0 million, or 21%. This represents an amount of allotment to be used for unplanned major capital improvement projects for the Center.

Noncurrent Investments increased by $7.3 million, or 47%, due to an increase in purchases of investments with longer maturity lives.

Current Liabilities increased by $2.3 million, or 11%, primarily due to an increase in vouchers payable of $4.1 million resulting from the timing of cost incurrence and payments partially offset by an decrease in amounts due to the State Department of Budget and Finance of $1.7 million. Amounts due to the State Department of Budget and Finance pertain to current year reimbursements due to the State Department of 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 the State Department of Budget and Finance subsequent to the ensuing year.

Net assets increased by $18.2 million or 68%. At June 30, 2011, the Authority has a net deficit of $8.6 million.

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 (RGO) 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.

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

(Continued)

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.

Revenues increased by $23.5 million, or 21%, due to an increase in transient accommodations tax revenue of $19.8 million and an increase of $3.8 million from the operations of the Hawaii Convention Center. The increase in transient accommodations tax revenue is attributed to an increase in tourism in the current fiscal year that resulted in more collections from transient accommodations taxes. The increase in revenue from the operations of the Hawaii Convention Center is due to more events held in the current fiscal year as compared to the prior fiscal year.

Expenses decreased by $43.8 million, or 28%, primarily due to the settlement expense incurred in the prior year by the Authority of $52.9 million in conjunction with the disputed amounts due to the State Department of Budget and Finance, offset by an increase in tourism and marketing contract costs of $9.1 million.

Transfers increased by $1.8 million, or 181%, primarily due to increases in transfers from the Convention Center Fund to the General Fund.

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.

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.

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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 $44.8 million, an increase of $11.3 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 $36.6 million, an increase of 26% from the prior fiscal year. As a measure of the Tourism Special Fund's liquidity, it may be useful to compare both committed fund balance to total fund expenditures. Committed fund balance represents 51% of total Tourism Special Fund's expenditures, an increase of 4% 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 $8.2 million.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011, the Authority had $242 million invested in capital assets as shown in the following table. There was a net decrease (additions, deductions, and depreciation) of $6.1 million from the end of the prior fiscal year.

		2011	2010
Land	$	131,496,508	131,496,508
Buildings and improvements		210,910,059	209,697,357
Furniture, fixtures, and equipment		4,433,775	4,544,641
		346,840,342	345,738,506
Accumulated depreciation		104,566,261	97,353,706
Total	$	242,274,081	248,384,800

This year's significant additions included $1.2 million for the Hawaii Convention Center. Additional information regarding the Authority's capital assets can be found in note 5 to the financial statements.

(Continued)

Indebtedness

As of June 30, 2011, the Authority had $305.9 million of amounts due to the State Department of Budget and Finance compared to $319.3 million as of June 30, 2010, which represents a decrease of 4.2% 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

Due to continued concerns over the global economy, the world tourism industry has experienced major reductions in its traveling constituents. This reduced world tourism activity has affected Hawaii's tourism industry, and the Authority continues to operate with a reduced budget.

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

Statement of Net Assets

June 30, 2011

Assets

Current assets:		
Cash (note 3)	$	10,360,901
Investments (note 4)		5,786,586
Transient accommodations tax receivable		9,039,741
Due from Hawaii Convention Center		1,193,203
Other current assets		753,630
Total current assets		27,134,061
Capital assets (note 5):		
Land		131,496,508
Other capital assets, net		110,777,573
		242,274,081
Investments (note 4)		22,660,411
Other assets (note 6)		11,736,660
Total noncurrent assets		276,671,152
Total assets	$	303,805,213

Liabilities and Net Assets

Current liabilities:		
Vouchers payable	$	4,828,550
Due to State Department of Budget and Finance (note 8)		19,059,509
Accrued wages		156,826
Accrued vacation (note 7)		122,046
Postemployment liability (note 9)		109,000
Total current liabilities		24,275,931
Accrued vacation (note 7)		362,154
Postemployment liability (note 9)		900,294
Due to State Department of Budget and Finance, net of current portion (note 8)		286,825,724
Total liabilities	$	312,364,103
Commitments and contingencies (notes 1, 7, 8, 9, and 10)		
Net assets:		
Invested in capital assets, net of related debt	$	(16,066,208)
Restricted		7,507,318
Total net assets	$	(8,558,890)

See accompanying notes to financial statements.

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

Statement of Activities

Year ended June 30, 2011

	Functional programs		
	Hawaii Convention Center management	**Tourism and marketing**	**Total**
Expenses:			
Contract expenses	$ 19,722,956	68,400,785	88,123,741
Interest on debt obligation to State Department of Budget and Finance (note 8)	15,069,917	—	15,069,917
Depreciation (note 5)	7,339,421	—	7,339,421
Payroll (note 9)	148,319	2,517,953	2,666,272
General and administrative	12,789	471,094	483,883
Total expenses	42,293,402	71,389,832	113,683,234
Program revenues – charges for services	12,461,963	—	12,461,963
Net expenses	$ 29,831,439	71,389,832	101,221,271
General revenues:			
Transient accommodations tax			121,782,814
Interest			535,234
Net decrease in the fair value of investments			(105,146)
Total general revenues			122,212,902
Transfers to fiduciary fund			—
Transfers to other state departments			(2,750,000)
Change in net assets			18,241,631
Net assets at July 1, 2010			(26,800,521)
Net assets at June 30, 2011			$ (8,558,890)

See accompanying notes to financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2011

Assets		Tourism Special Fund	Convention Center Enterprise Special Fund	Total Governmental Funds
Cash in bank (note 3)	$	9,233,393	1,127,508	10,360,901
Investments (note 4)		25,432,967	3,014,030	28,446,997
Transient accommodations tax receivable		6,157,226	2,882,515	9,039,741
Due from Hawaii Convention Center		—	1,193,203	1,193,203
Other assets		743,963	9,667	753,630
Total assets	$	41,567,549	8,226,923	49,794,472
Liabilities and Fund Balances				
Liabilities:				
Vouchers payable	$	4,828,550	—	4,828,550
Accrued wages and employee benefits payable		148,467	8,359	156,826
Total liabilities		4,977,017	8,359	4,985,376
Fund balances:				
Committed		36,590,532	8,218,564	44,809,096
Total liabilities and fund balances	$	41,567,549	8,226,923	
Amounts reported in the statement of net assets are different because (note 1):				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds				242,274,081
Difference between accounting for amounts held by SMG for future capital expenditures in the statement of net assets and in the governmental funds				11,736,660
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				(258,340,289)
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				(47,544,944)
Accrued vacation and postemployment liability reported in the statement of net assets do not require the use of current financial resources and, therefore, are not reported as liabilities in the governmental funds				(1,493,494)
Net assets of governmental activities				$ (8,558,890)

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, 2011

	Tourism Special Fund	Convention Center Enterprise Special Fund	Total Governmental Funds
Revenues:			
Transient accommodations tax	$ 84,983,031	36,799,783	121,782,814
Hawaii Convention Center operations	—	12,461,963	12,461,963
Interest	461,326	73,908	535,234
Net decrease in the fair value of investments	(84,691)	(20,455)	(105,146)
Total revenues	85,359,666	49,315,199	134,674,865
Expenditures:			
Contract expenditures	68,400,785	22,958,766	91,359,551
Interest on debt obligation to State Department of Budget and Finance (note 8)	—	26,430,817	26,430,817
Personnel	2,216,926	132,031	2,348,957
Administrative and general	471,094	12,789	483,883
Total expenditures	71,088,805	49,534,403	120,623,208
Excess (deficiency) of revenues over expenditures	14,270,861	(219,204)	14,051,657
Other financing sources (uses):			
Transfers in (out)	(6,000,000)	6,000,000	—
Transfers to other state departments	(750,000)	(2,000,000)	(2,750,000)
Total other financing sources (uses)	(6,750,000)	4,000,000	(2,750,000)
Excess of revenues over expenditures and other financing sources (uses)	7,520,861	3,780,796	11,301,657
Fund balances at July 1, 2010	29,069,671	4,437,768	
Fund balances at June 30, 2011	$ 36,590,532	8,218,564	
Amounts reported in the statement of activities are different because (note 1):			
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			(6,110,718)
Difference between accounting for cash paid to SMG for future capital expenditures in the statement of activities and in the governmental funds			2,007,107
Repayment of debt obligation principal is an expenditure in the government funds, but the payment reduces long-term liabilities in the statement of net assets			11,030,000
Difference between accounting for interest expense in the statement of activities and in the governmental funds			330,900
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			(317,315)
Change in net assets			$ 18,241,631

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
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Statement of Revenues and Expenditures – Budget and Actual
(Budgetary Basis) – General Fund, Tourism Special Fund, and Convention Center Enterprise Special Fund

Year ended June 30, 2011

	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	$ 86,997,027	86,997,027	83,981,120	(3,015,907)	33,000,000	33,000,000	36,794,538	3,794,538
Hawaii Convention Center operations	—	—	—	—	14,992,526	14,992,526	11,883,907	(3,108,619)
Interest	—	—	323,558	323,558	—	—	51,453	51,453
Other	—	—	114,407	114,407	—	—	—	—
Total revenues	86,997,027	86,997,027	84,419,085	(2,577,942)	47,992,526	47,992,526	48,729,898	737,372
Expenditures	80,247,027	80,247,027	72,389,494	7,857,533	53,992,526	53,992,526	49,751,257	(4,241,269)
Excess (deficiency) of revenues over expenditures	6,750,000	6,750,000	12,029,591	5,279,591	(6,000,000)	(6,000,000)	(1,021,359)	4,978,641
Other financing sources (uses)	(6,750,000)	(6,750,000)	(6,750,000)	—	6,000,000	6,000,000	6,000,000	—
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	$ —	—	5,279,591	5,279,591	—	—	4,978,641	4,978,641

See accompanying notes to financial statements.

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

Statement of Fiduciary Net Assets – Fiduciary Fund

June 30, 2011

		Trust fund
Assets:		
Investments (note 4)	$	5,000,000
Liabilities:		
Deposits payable		5,000,000
Net assets	$	—

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 assets 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.

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 assets as of June 30, 2011 reports restricted net assets of $7,543,035, 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 Emergency Tourism Fund.

(c) Basis of Accounting

The government-wide statement of net assets 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 assets.

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 derived from 34.20% and 17.30%, respectively, of the total amount of transient accommodations tax (TAT) collected by the State. The TAT is assessed at a rate of 9.25% on the gross rental or gross rental proceeds derived from providing transient accommodations.

If the amount of TAT revenues deposited into the Convention Center Fund exceeds $33,000,000 in any calendar year, revenues collected in excess of $33,000,000 shall be deposited into the State's General Fund.

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; 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.

(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 assets. 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
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 – Australia and New Zealand

(i) SMG 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 two five-year option periods through June 30, 2016. 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, 2012 with a one-year option period through June 30, 2013. The management fee for the year ended June 30, 2011 amounted to $463,297.

(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) Recently Adopted Governmental Accounting Pronouncements

Effective July 1, 2010, the Authority adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes new classifications for fund balance reported by governmental funds and clarifies the definitions of the governmental fund types. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. The new fund balance classifications are as follows:

Nonspendable – Amounts that cannot be spent because they are either (a) not in spendable form (such as inventories and prepaid amounts), or (b) legally or contractually required to be maintained intact (such as, the corpus of a permanent endowment).

Restricted – Amounts that can be spent only for the specific purposes stipulated by constitution, external parties (such as grantors, creditors or other governments), or enabling legislation.

Committed – Amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority (such as the state legislature).

Assigned – Amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned – The residual fund balance classification for the government's general fund and includes all amounts not contained in the other classifications.

(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, 2011, there were no expenditures in excess of appropriations at the legal level of budgetary control.

(Continued)

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, 2011 follows:

		Tourism Fund	Convention Center Fund
Excess of revenues over expenditures and other financing sources (uses) – budgetary basis	$	5,279,591	4,978,641
Reserved for encumbrances		26,482,579	—
Expenditures for liquidation of prior fiscal year encumbrances		(24,354,941)	(4,068,937)
Net accrued revenues and expenditures		113,632	2,871,092
Excess of revenues over expenditures and other financing sources (uses) – GAAP basis	$	7,520,861	3,780,796

(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, 2011, the Authority's deposits with the financial institution totaled $10,360,901 ($10,360,901 for the Governmental Funds and $0 for the Fiduciary Fund), and had a corresponding bank balance of $10,261,224.

(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, 2011, only $2,750,000 of the Authority's bank balance of $10,261,224 was collateralized. $7,511,224 was exposed to custodial credit risk resulting from uninsured and uncollateralized amounts.

(4) Investments

At June 30, 2011, the Authority had the following investments:

Investment type	Fund		Fair value	Maturity (in years) Less than 1	1 – 5
U.S. federal agency notes	Tourism Fund	$	25,432,967	5,786,586	19,646,381
U.S. federal agency notes	Convention Center Fund		3,014,030	—	3,014,030
Total investments		$	28,446,997	5,786,586	22,660,411

At June 30, 2011, 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	$	199,868	199,868	—
U.S. Treasury obligations		3,311,162	1,343,605	1,967,557
U.S. federal agency notes		1,488,970	1,488,970	—
Total investments	$	5,000,000	3,032,443	1,967,557

(a) Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(b) Credit risk

The Authority follows the State’s policy of limiting its investments to investments in state and U.S. Treasury securities, certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers’ acceptances, 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.

(5) Capital Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2011:

	Balance at 2010	Additions	Deductions	Balance at June 30, 2011
Capital assets not being depreciated:				
Land	$ 131,496,508	—	—	131,496,508
Other capital assets:				
Buildings and improvements	209,697,357	1,212,702	—	210,910,059
Furniture, fixtures, and equipment	4,544,641	16,000	(126,866)	4,433,775
Total other capital assets	214,241,998	1,228,702	(126,866)	215,343,834
Less accumulated depreciation for:				
Buildings and improvements	93,865,967	7,007,205	—	100,873,172
Furniture, fixtures, and equipment	3,487,739	332,216	(126,866)	3,693,089
Total accumulated depreciation	97,353,706	7,339,421	(126,866)	104,566,261
Total other capital assets, net	116,888,292	(6,110,719)	—	110,777,573
Total capital assets, net	$ 248,384,800	(6,110,719)	—	242,274,081

Depreciation expense charged to the Hawaii Convention Center management function amounted to $7,339,421 for the fiscal year ended June 30, 2011.

(6) Other Assets

Other assets represent unspent funds held by SMG for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects. At June 30, 2011, unspent funds amounted to $11,736,660.

(Continued)

(7) Accrued Vacation

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2011:

Balance at June 30, 2010	$	417,109
Additions		166,312
Deletions		(99,221)
Balance at June 30, 2011		484,200
Less current portion		(122,046)
	$	362,154

(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.

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 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, 2011, the outstanding principal and aggregate interest amounts required to be reimbursed by the Authority were $258,340,289 and $164,522,377, 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
2012	$	11,690,000	14,739,017	26,429,017
2013		12,390,000	14,037,617	26,427,617
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 – 2021		88,180,000	43,962,087	132,142,087
2022 – 2026		97,740,289	34,409,487	132,149,776
2027		6,530,000	19,902,918	26,432,918
	$	258,340,289	164,522,377	422,862,666

For the year ended June 30, 2011, the Authority was required to reimburse Budget and Finance $28,499,754 for principal and interest. For the year ended June 30, 2011, the Authority recorded $15,069,918 of interest expense on debt obligation to the Budget and Finance in the statement of activities. At June 30, 2011, the statement of net assets reflected the total long-term liabilities of the Authority as follows:

Current interest	$	7,369,509
Current principal		11,690,000
Current portion		19,059,509
Noncurrent principal		246,650,289
Noncurrent interest		40,175,435
Noncurrent portion		286,825,724
Total	$	305,885,233

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

July 1, 2010	$ 319,315,069
Additions	15,069,918
Reductions	(28,499,754)
June 30, 2011	$ 305,885,233

(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 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. 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.

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%.

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. These rates increased, 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, 2011, 2010, and 20009 were $226,000, $260,000, and $240,000, 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 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 credited service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of credited 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 credited service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with over 25 years of credited service, the State pays the entire healthcare premium.

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

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, 2011 was $107,643, which represented 30% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of $357,866.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2011:

Balance at June 30, 2010	$	759,071
Additions		357,866
Deletions		(107,643)
Balance at June 30, 2011		1,009,294
Less current portion		109,000
	$	900,294

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, 2011, accumulated sick leave approximated $969,908 for the Authority.

(b) Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. 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 basic financial statements.