KPMG

HAWAII TOURISM AUTHORITY

(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2014

(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
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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, 2014, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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.

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, 2014, 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

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 8 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 19, 2014 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

Honolulu, Hawaii
December 19, 2014

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, 2014. 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, deferred outflows of resources, liabilities, and deferred inflows of resources, accounted for on a flow of economic resources measurement focus using the 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, deferred outflows of resources, liabilities, deferred inflows of resources, revenues 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

(Continued)

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, 2014 and 2013 (in thousands):

Condensed Statements of Net Position

June 30, 2014 and 2013

		2014	2013
Assets:			
Current assets	$	46,719	18,325
Capital assets		223,615	230,500
Investments – noncurrent		18,727	31,434
Other assets		10,756	10,809
Total assets	$	299,817	291,068
Liabilities:			
Current liabilities	$	25,424	24,672
Other noncurrent liabilities		249,777	263,477
Total liabilities	$	275,201	288,149
Net position:			
Invested in capital assets, net of related debt	$	2,489	(3,760)
Restricted		22,127	6,679
Total net position	$	24,616	2,919

(Continued)

Condensed Statements of Activities

Years ended June 30, 2014 and 2013

	2014	2013
Expenses:		
Hawaii Convention Center management:		
Contract	$ 14,055	15,254
Interest on debt obligation to State Department of Budget and Finance	12,900	13,666
Depreciation	7,274	7,372
Payroll	470	237
General and administrative	203	374
Other	75	139
	34,977	37,042
Tourism and marketing:		
Contract	63,810	65,256
Payroll	2,901	2,791
General and administrative	541	524
Other	62	58
	67,314	68,629
Total expenses	102,291	105,671
Revenues:		
Program:		
Charges for services	8,205	9,462
General:		
Transient accommodations tax	115,000	104,000
Other	593	(277)
Total revenues	123,798	113,185
Transfers	190	(1,000)
Change in net position	21,697	6,514
Beginning net position	2,919	(3,595)
Ending net position	$ 24,616	2,919

Financial Analysis

Current Assets increased by $28.4 million, or 155%, primarily due to an increase in cash of $33.4 million, partially offset by a decrease in short-term investments of $4.5 million. Cash is primarily available for current contracts.

Capital Assets decreased by $6.9 million, or 3%, due to the recording of current year depreciation expense of $7.3 million offset by current year capital asset additions of $0.4 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 $0.1 million, or 0.5%. This represents unspent funds held by AEG 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 decreased by $12.7 million, or 40%, due to the sale of investments with longer maturity lives.

Current Liabilities increased by $0.8 million, or 3%, primarily due to an increase in vouchers payable of $0.3 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 position of $2.9 million at June 30, 2013 to a net position of $24.6 million at June 30, 2014.

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 increased by $10.6 million, or 9%, due to an increase in transient accommodations tax revenue of $11.0 million and an increase of $0.9 million from the change in fair value of investments, partially offset by a decrease in program revenues of $1.3 million. 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 $3.4 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.

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 $60.3 million, an increase of $15.4 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 $45.1 million, an increase of 38% 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 67% of total Tourism Special Fund's expenditures, an increase of 12% 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 $15.2 million.

(Continued)

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2014, the Authority had $223.6 million invested in capital assets as shown in the following table. There was a net decrease (additions, deductions, and depreciation) of $6.9 million from the end of the prior fiscal year.

		(In thousands)	
		2014	**2013**
Land	$	131,497	131,497
Buildings and improvements		211,125	211,125
Furniture, fixtures, and equipment		4,746	4,688
Construction in progress		2,383	2,114
		349,751	349,424
Accumulated depreciation		126,136	118,924
Total	$	223,615	230,500

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

Indebtedness

As of June 30, 2014, the Authority had $267.6 million of amounts due to the State Department of Budget and Finance compared to $281.1 million as of June 30, 2013, which represents a decrease of 5% 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, 2014

Assets		
Current assets:		
Cash	$	46,039,688
Due from Hawaii Convention Center		634,840
Other current assets		44,766
Total current assets		46,719,294
Capital assets:		
Land		131,496,508
Construction in progress		2,383,325
Other capital assets, net		89,734,804
		223,614,637
Investments		18,726,724
Other assets		10,756,254
Total noncurrent assets		253,097,615
Total assets	$	299,816,909
Liabilities		
Current liabilities:		
Vouchers payable	$	4,973,322
Due to State Department of Budget and Finance		20,173,059
Accrued wages		130,017
Accrued vacation		147,579
Total current liabilities		25,423,977
Accrued vacation		407,919
Postemployment liability		1,988,460
Due to State Department of Budget and Finance, net of current portion		247,380,724
Total liabilities	$	275,201,080
Commitments and contingencies		
Net Position		
Net position:		
Net investment in capital assets	$	2,489,348
Restricted		22,126,481
Total net position	$	24,615,829

See accompanying notes to financial statements.

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

Statement of Activities

Year ended June 30, 2014

	Functional programs		
	Hawaii Convention Center management	**Tourism and marketing**	**Total**
Expenses:			
Contract expenses	$ 14,054,818	63,809,810	77,864,628
Interest on debt obligation to State Department of Budget and Finance	12,900,167	—	12,900,167
Depreciation	7,273,592	—	7,273,592
Payroll	470,597	2,900,700	3,371,297
General and administrative	203,173	541,604	744,777
Other	74,967	62,366	137,333
Total expenses	34,977,314	67,314,480	102,291,794
Program revenues – charges for services	8,204,707	—	8,204,707
Net expenses	$ 26,772,607	67,314,480	94,087,087
General revenues:			
Transient accommodations tax			115,000,000
Interest			314,436
Net increase in the fair value of investments			272,848
Other			6,450
Total general revenues			115,593,734
Transfers (to) from other state departments			190,000
Change in net position			21,696,647
Net position at July 1, 2013			2,919,182
Net position at June 30, 2014			$ 24,615,829

See accompanying notes to financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2014

Assets		Tourism Special Fund	Convention Center Enterprise Special Fund		Total Governmental Funds
Cash in bank	$	35,521,384	10,518,304		46,039,688
Investments		14,472,845	4,253,879		18,726,724
Due from Hawaii Convention Center		—	634,840		634,840
Other assets		33,717	11,049		44,766
Total assets	$	50,027,946	15,418,072		65,446,018
Liabilities and Fund Balances					
Liabilities:					
Vouchers payable	$	4,806,220	167,102		4,973,322
Accrued wages and employee benefits payable		110,840	19,177		130,017
Total liabilities		4,917,060	186,279		5,103,339
Fund balances:					
Committed		45,110,886	15,231,793		60,342,679
Total liabilities and fund balances	$	50,027,946	15,418,072		
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					223,614,637
Difference between accounting for amounts held by AEG and DAGS for future capital expenditures in the statement of net position and in the governmental funds					10,756,254
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					(221,125,289)
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					(46,428,494)
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					(2,543,958)
Net position of governmental activities				$	24,615,829

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, 2014

	Tourism Special Fund	Convention Center Enterprise Special Fund	Total Governmental Funds
Revenues:			
Transient accommodations tax	$ 82,000,000	33,000,000	115,000,000
Hawaii Convention Center operations	—	8,204,707	8,204,707
Interest	260,254	54,182	314,436
Net increase in the fair value of investments	163,297	109,551	272,848
Other	6,450	—	6,450
Total revenues	82,430,001	41,368,440	123,798,441
Expenditures:			
Contract expenditures	63,809,810	14,390,291	78,200,101
Interest on debt obligation to State Department of Budget and Finance	—	26,429,217	26,429,217
Personnel	2,676,272	450,617	3,126,889
Administrative and general	541,604	203,173	744,777
Other	62,366	74,967	137,333
Total expenditures	67,090,052	41,548,265	108,638,317
Excess (deficiency) of revenues over expenditures	15,339,949	(179,825)	15,160,124
Other financing sources (uses):			
Transfers in (out)	(3,074,139)	3,074,139	—
Transfers from (to) other state departments	190,000	—	190,000
Total other financing sources (uses)	(2,884,139)	3,074,139	190,000
Excess of revenues over expenditures and other financing sources (uses)	12,455,810	2,894,314	15,350,124
Fund balances at July 1, 2013	32,655,076	12,337,479	
Fund balances at June 30, 2014	$ 45,110,886	15,231,793	
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			(6,885,848)
Difference between accounting for cash paid to SMG, AEG and DAGS for future capital expenditures in the statement of activities and in the governmental funds			(52,271)
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			13,135,000
Difference between accounting for interest expense in the statement of activities and in the governmental funds			394,050
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			(244,408)
Change in net position			$ 21,696,647

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, 2014

		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	$	87,152,066	87,212,404	82,000,000	(5,212,404)	33,000,000	33,000,000	33,000,000	—
Hawaii Convention Center operations		—	—	—	—	17,568,232	17,573,985	8,505,135	(9,068,850)
Interest		—	—	224,426	224,426	—	—	(43,021)	(43,021)
Other		—	—	63,635	63,635	—	—	175,186	175,186
Total revenues		87,152,066	87,212,404	82,288,061	(4,924,343)	50,568,232	50,573,985	41,637,300	(8,936,685)
Expenditures		84,267,927	84,328,265	69,161,858	15,166,407	54,010,232	54,015,985	43,566,744	(10,449,241)
Excess (deficiency) of revenues over expenditures		2,884,139	2,884,139	13,126,203	10,242,064	(3,442,000)	(3,442,000)	(1,929,444)	1,512,556
Other financing sources (uses)		(2,884,139)	(2,884,139)	(2,884,139)	—	3,442,000	3,442,000	3,074,139	(367,861)
Excess of revenues over expenditures and other financing sources (uses)	$	—	—	10,242,064	10,242,064	—	—	1,144,695	1,144,695

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, 2014

		Trust fund
Assets:		
Cash	$	2,900,712
Investments		2,099,288
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.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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, 2014 reports restricted net position of $22,126,481, 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, .5% is allocated 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.

On May 19, 2014, Act 81, Session Laws of Hawaii 2014 was signed into law and authorizes the Authority to issue $40,000,000 in revenue bonds to acquire a conservation easement in Turtle Bay. Act 81 allocates TAT of $3,000,000 annually to HTA to pay the debt service on those bonds. Deposit and debt service payments will be made through the Turtle Bay Conservation Easement Special Fund, also established under Act 81, under the purview of the Authority. Act 81 reduces the TAT allocation to the Convention Center Enterprise Special Fund from $33,000,000 to $26,500,000, and requires the Authority to restructure the Hawaii Convention Center's obligation to the State

Department of Budget and Finance to accommodate an annual payment for debt service of not more than $16,500,000.

(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 seven 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 – Korea
The Walshe Group, DBA Hawaii Tourism Oceania – Australia and New Zealand
JWI Marketing Co. Ltd. – Taiwan
Travel Link Co. Ltd. - China

(Continued)

(i) Center Contract

Effective January 1, 2014, the Authority contracted AEG, a private contractor, to manage and operate the Center. Prior to January 1, 2014, the Authority contracted SMG to manage and operate the center. AEG is on a cost-reimbursement contract whereby it is reimbursed by the Authority for costs incurred in operating the Center. AEG also assumes responsibility for the Center's sales and marketing efforts. The Authority's contract with AEG extends through December 31, 2018, with a termination option which may be exercised by the Authority in its sole discretion effective as of December 31, 2016. The management fees for the year ended June 30, 2014 amounted to $236,667.

(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 Accounting Standards

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is 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 implementation of GASB Statement No. 65 did not have a significant impact on the financial statements for the fiscal year ended June 30, 2014.

Effective July 1, 2013, the Authority implemented the provisions of GASB Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statement No. 10 and No. 62*, which is effective for financial statements for periods beginning after December 15, 2012. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. This Statement did not have a material impact on the Authority's financial statements for the fiscal year ended June 30, 2014.

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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 15, 2014. The Authority has not yet determined the impact of this standard on its financial statements and disclosures.

Effective July 1, 2013, the Authority implemented the provisions of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is effective for financial statements for periods beginning after June 15, 2013. This statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. The implementation of GASB Statement No. 70 does not have a significant impact on the financial statements for the fiscal year ended June 30, 2014.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The provisions of this Statement should be applied simultaneously with the provision of Statement No. 68. The Authority has not yet determined the impact of this Statement 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, 2014, 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, 2014 is as follows:

		Tourism Fund	Convention Center Fund
Excess of revenues over expenditures and other financing sources (uses) – budgetary basis	$	10,242,064	1,144,695
Reserved for encumbrances		31,729,659	2,197,975
Expenditures for liquidation of prior fiscal year encumbrances		(29,391,747)	(89,501)
Net accrued revenues and expenditures		(124,166)	(358,855)
Excess of revenues over expenditures and other financing sources (uses) – GAAP basis	$	12,455,810	2,894,314

(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, 2014, the Authority's deposits with the financial institution totaled $48,940,400 ($46,039,688 for the Governmental Funds and $2,900,712 for the Fiduciary Fund) and had a corresponding bank balance of $76,220,656.

(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, 2014, the Authority's custodial risk resulting from uninsured and uncollateralized amounts totaled $12,478,288.

(Continued)

(4) Investments

At June 30, 2014, 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	$ 10,444,865	—	10,444,865
U.S. Treasury notes	Tourism Fund	4,027,980	—	4,027,980
U.S. Federal agency notes	Convention Center Fund	4,253,879	—	4,253,879
Total investments		$ 18,726,724	—	18,726,724

At June 30, 2014, the Authority held the following investments in a fiduciary capacity:

Investment type	Fair value	Maturity (In years) Less than 1	1 – 5
U.S. Federal agency notes	$ 2,099,288	—	2,099,288
Total investments	$ 2,099,288	—	2,099,288

(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.

(5) Capital Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2014:

	Balance at 2013	Additions	Deductions	Balance at June 30, 2014
Capital assets not being depreciated:				
Land	$ 131,496,508	—	—	131,496,508
Construction in progress	2,113,704	269,621	—	2,383,325
Total capital assets not being depreciated	133,610,212	269,621	—	133,879,833
Other capital assets:				
Buildings and improvements	211,125,125	—	—	211,125,125
Furniture, fixtures, and equipment	4,688,382	127,534	(70,017)	4,745,899
Total other capital assets	215,813,507	127,534	(70,017)	215,871,024
Less accumulated depreciation for:				
Buildings and improvements	114,922,581	7,037,504	—	121,960,085
Furniture, fixtures, and equipment	4,000,653	236,088	(60,606)	4,176,135
Total accumulated depreciation	118,923,234	7,273,592	(60,606)	126,136,220
Total other capital assets, net	96,890,273	(7,146,058)	(9,411)	89,734,804
Total capital assets, net	$ 230,500,485	(6,876,437)	(9,411)	223,614,637

Depreciation expense charged to the Hawaii Convention Center management function amounted to $7,273,592 for the fiscal year ended June 30, 2014.

(6) Other Assets

Other assets represent unspent funds held by AEG and the Department of Accounting and General Services (DAGS) for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects. At June 30, 2014, unspent funds amounted to $10,756,254.

(7) Accrued Vacation

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2014:

Balance at June 30, 2013	$	475,352
Additions		212,716
Deletions		(132,570)
Balance at June 30, 2014		555,498
Less current portion		(147,579)
	$	407,919

(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 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, 2014, the outstanding principal and aggregate interest amounts required to be reimbursed by the Authority were $221,125,289 and $122,451,523, 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
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	17,575,000	8,852,117	26,427,117
2020 – 2024	105,025,000	27,118,287	132,143,287
2025 – 2029	37,625,289	41,671,551	79,296,840
	$ 221,125,289	122,451,523	343,576,812

For the year ended June 30, 2014, the Authority was required to reimburse Budget and Finance $26,429,217 for principal and interest. For the year ended June 30, 2014, the Authority recorded $12,900,167 of interest expense on debt obligation to the Budget and Finance in the statement of activities. At June 30, 2014, the statement of net position reflected the total long-term liabilities of the Authority as follows:

Current principal	$ 13,920,000
Current interest	6,253,059
Current portion	20,173,059
Noncurrent principal	207,205,289
Noncurrent interest	40,175,435
Noncurrent portion	247,380,724
Total	$ 267,553,783

(Continued)

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

July 1, 2013	$	281,082,833
Additions		12,900,167
Reductions		(26,429,217)
June 30, 2014	$	267,553,783

(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.

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.

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, 2014, 2013, and 2012 were $323,000, $251,000, and $264,000, 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, 2014 was $209,238, which represented 56% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of $373,500.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2014:

Balance at June 30, 2013	$	1,824,198
Additions		373,500
Deletions		(209,238)
Balance at June 30, 2014	$	1,988,460

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, 2014, accumulated sick leave approximated $913,684 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.