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

FINANCIAL STATEMENTS

June 30, 2018

(With Independent Auditor's Report Thereon)

CW Associates
A Hawaii Certified Public Accounting Corporation

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

TABLE OF CONTENTS

For the Year Ended June 30, 2018

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Office of the Auditor
State of Hawaii

The Board of Directors
Hawaii Tourism Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawaii Tourism Authority (Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 policies 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 opinion.

Topa Financial Center
700 Bishop Street, Suite 1040
Honolulu, Hawaii 96813
Telephone (808) 531-1040
Facsimile (808) 531-1041
www.cwassociatescpas.com

Opinions on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparisons thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements of the Authority are intended to present the financial position and the changes in financial position of only that portion of the component units of the State of Hawaii that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Application of this statement was effective as of July 1, 2017. As discussed in Note 10 to the financial statements, the 2017 beginning net position of the Authority has been restated for the adoption of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB which 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 inquiries, 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 12, 2018, 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 grants 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.

CW Associates, CPAs

Honolulu, Hawaii
December 12, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2018

The Hawaii Tourism Authority (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 (State). 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, 2018. 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 the 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 an 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 when 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. Government-wide financial statements are comprised of the following:

- *The Statement of Net Position*, which 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 of whether the financial position of the Authority is improving or deteriorating.

- *The Statement of Activities*, which 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.

Overview of the Basic Financial Statements (continued)

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 17 and 18 to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains three governmental funds (Tourism Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency 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.

Notes to the 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.

Overview of the Basic Financial Statements (continued)

Condensed Financial Information

The following are summaries from the Authority's government-wide financial statements as of and for the years ended June 30, 2018 and 2017:

Condensed Statements of Net Position

As of June 30, 2018 and 2017

	2018	2017
Assets		
Current assets	$ 98,492,000	$ 89,717,000
Capital assets, net of depreciation	204,031,000	206,362,000
Investments – noncurrent	800,000	11,585,000
Other noncurrent assets	19,885,000	15,933,000
Total assets	323,208,000	323,597,000
Deferred outflows of resources	1,951,000	2,331,000
Total assets and deferred outflows of resources	$325,159,000	$325,928,000
Liabilities		
Current liabilities	$227,743,000	$ 42,419,000
Noncurrent liabilities	11,943,000	212,418,000
Total liabilities	239,686,000	254,837,000
Deferred inflows of resources	607,000	399,000
Net position		
Invested in capital assets, net of related debt	43,806,000	29,557,000
Restricted	41,060,000	41,135,000
Total net position	84,866,000	70,692,000
Total liabilities, deferred inflows of resources, and net position	$325,159,000	$325,928,000

Overview of the Basic Financial Statements (continued)

Condensed Financial Information (continued)

Condensed Statements of Activities

For the years ended June 30, 2018 and 2017

	2018	2017
Expenses		
Hawaii Convention Center management		
Contract	$ 15,241,000	$ 15,544,000
Interest on debt obligation to State Department of Budget and Finance	9,350,000	10,316,000
Depreciation	7,278,000	7,251,000
Payroll	281,000	309,000
Other	113,000	184,000
Pension	94,000	94,000
Postemployment	45,000	41,000
Administrative and general	12,000	11,000
Total Hawaii Convention Center management expenses	32,414,000	33,750,000
Tourism and marketing		
Contract	68,781,000	68,548,000
Payroll	2,064,000	2,173,000
Administrative and general	745,000	510,000
Pension	693,000	647,000
Postemployment	330,000	289,000
Other	208,000	135,000
Total tourism and marketing expenses	72,821,000	72,302,000
Total expenses	105,235,000	106,052,000
Revenues		
Program		
Charges for services	10,508,000	10,147,000
General		
Transient accommodations tax	108,500,000	108,500,000
Other	431,000	300,000
Total revenues	119,439,000	118,947,000
Transfers	(30,000)	(30,000)
Change in net position	14,174,000	12,865,000
Net position – beginning of year, as restated	70,692,000	57,827,000
Net position – end of year	$ 84,866,000	$ 70,692,000

Overview of the Basic Financial Statements (continued)

Financial Analysis

Current Assets increased by approximately $8,775,000, or 10%, primarily due to an increase in cash of approximately $15,400,000, partially offset by a decrease in other current assets of approximately $6,115,000. Cash is primarily available for current contracts. Other current assets consists of prepaid expenses and unspent funds held by Anschutz Entertainment Group (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 Hawaii Convention Center (Center) that are expected to be expended in the subsequent year.

Capital Assets decreased by approximately $2,331,000, or 1%, primarily due to the recording of current year depreciation expense of approximately $7,278,000, partially offset by an increase of approximately $4,947,000 in construction in progress relating to improvements at the Center and other capital asset purchases. A substantial portion of the Authority's capital asset additions pertains to renovations and improvements to the Center. See Note 5 to the financial statements.

Investments decreased by approximately $10,785,000, or 93%, due to the majority of the investments being liquidated to cash and transferred to DAGS.

Other Noncurrent Assets increased by approximately $3,952,000, or 25%. This represents unspent funds held by AEG and DAGS for emergency capital improvements, repair or maintenance purchases, and funds earmarked for various capital improvement projects for the Center.

Current Liabilities increased by approximately $185,324,000, or 437%, primarily due to an increase in current amounts due to the State Department of Budget and Finance (Budget and Finance) of approximately $189,750,000. Amounts due to Budget and Finance pertain to current year reimbursements for debt service payments on general obligation bonds whose proceeds were used to fund the construction of the Center.

Noncurrent Liabilities decreased by approximately $200,475,000, or 94%, primarily due to a decrease in amounts due to Budget and Finance subsequent to the ensuing year.

Net position went from a net position of approximately $70,692,000 (restated due to the adoption of GASB Statement No. 75 – See Note 10) at June 30, 2017 to a net position of approximately $84,866,000 at June 30, 2018 due to the operating results of the Authority.

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds, proceeds of which 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.

Overview of the Basic Financial Statements (continued)

Financial Analysis (continued)

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 and, accordingly, had not recorded this liability in its financial statements. This matter was 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 to 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 service to bondholders was made. What was 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.

Overview of the Basic Financial Statements (continued)

Financial Analysis (continued)

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 rendering 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.

On June 29, 2018, Act 086, Session Laws of Hawaii 2018, canceled the remaining outstanding balance of approximately $224,110,000 on the debt service payments, effective July 1, 2018.

Expenses decreased by approximately $817,000, or 1%, primarily due to a decrease in interest expense on the debt obligation to the State Department of Budget and Finance in the current year as compared to the prior fiscal year.

Revenues increased by approximately $492,000, or 0.4%, primarily due to an increased in program revenues of approximately $361,000.

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, the 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 approximately $76,051,000, an increase of approximately $732,000 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 Authority's board of directors.

Financial Analysis of the Authority's Individual Funds (continued)

Governmental Funds (continued)

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 approximately $69,970,000, an increase of 8% from the prior fiscal year. As a measure of the Tourism Special Fund's liquidity, it may be useful to compare the committed fund balance to total fund expenditures. Committed fund balance represents 97% of total Tourism Special Fund expenditures, an increase of 7% 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 Center and an allocated portion of the revenues received from the State's TAT. Funds collected by the Convention Center Enterprise Special Fund are used to pay all expenses arising from the use and operation of the Center and to reimburse 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 approximately $1,082,000.

The Tourism Emergency Special Fund was established by Hawaii Revised Statutes Section 201B-10. Monies in the Tourism Emergency Special Fund shall be used exclusively to provide for the development and implementation of emergency measures to respond to any tourism emergency including providing emergency assistance to tourists during the tourism emergency. At the end of the current fiscal year, the Tourism Emergency Special fund had a committed fund balance of approximately $5,000,000.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2018, the Authority had approximately $204,031,000 invested in capital assets as shown in the following table. There was a net decrease (additions, disposals, and depreciation) of approximately $2,331,000 from the end of the prior fiscal year.

	2018	2017
Capital assets		
Land	$ 131,497,000	$ 131,497,000
Buildings and improvements	211,630,000	211,528,000
Furniture, fixtures, and equipment	5,380,000	5,440,000
Construction in progress	10,151,000	5,305,000
Total capital assets	358,658,000	353,770,000
Less accumulated depreciation	154,627,000	147,408,000
Total capital assets, net	$ 204,031,000	$ 206,362,000

Capital Asset and Debt Administration (continued)

Capital Assets (continued)

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

Indebtedness

As of June 30, 2018, the Authority had approximately $224,110,000 of amounts due to Budget and Finance compared to approximately $234,761,000 as of June 30, 2017, 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.

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

STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES

As of June 30, 2018

Current assets	
Cash and cash equivalents	$ 97,121,616
Accounts receivable	57,931
Other current assets	1,312,744
Total current assets	98,492,291
Noncurrent assets	
Investments	799,976
Capital assets	
Land	131,496,508
Construction in progress	10,151,187
Other capital assets, net	62,383,446
Capital assets, net of depreciation	204,031,141
Other noncurrent assets	19,884,586
Total noncurrent assets	224,715,703
Total assets	323,207,994
Deferred outflows of resources related to postemployment	344,648
Deferred outflows of resources related to pensions	1,606,392
Total deferred outflows of resources	1,951,040
Total assets and deferred outflows of resources	$325,159,034

(Continued)

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

STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES (Continued)

As of June 30, 2018

Current liabilities	
Vouchers payable	$ 3,398,330
Due to State Department of Budget and Finance (See Note 8)	224,110,234
Accrued payroll	112,235
Accrued vacation	122,552
Total current liabilities	227,743,351
Long-term liabilities	
Accrued vacation, net of current position	221,037
Postemployment liability	5,564,284
Pension liability, net	6,157,263
Total long-term liabilities	11,942,584
Total liabilities	239,685,935
Deferred inflows of resources related to postemployment	7,418
Deferred inflows of resources related to pensions	599,873
Total deferred inflows of resources	607,291
Total liabilities and deferred inflows of resources	240,293,226
Net position	
Net investment in capital assets	43,805,852
Restricted	41,059,956
Total net position	84,865,808
Total liabilities and net position	$325,159,034

See accompanying notes to the financial statements.

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

STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES

For the Year Ended June 30, 2018

	Functional Programs		
	Hawaii Convention Center Management	Tourism and Marketing	Total
Expenses			
Contracts	$ 15,241,377	$ 68,780,078	$ 84,021,455
Interest on debt obligation to State Department of Budget and Finance	9,349,517	-	9,349,517
Depreciation	7,277,970	-	7,277,970
Payroll	281,415	2,063,522	2,344,937
Pension	94,454	693,024	787,478
Administrative and general	11,586	744,609	756,195
Postemployment	44,932	329,671	374,603
Other	113,459	208,298	321,757
Total expenses	$ 32,414,710	$ 72,819,202	105,233,912
Program revenues – charge for services			10,507,768
Net expenses			94,726,144
General revenues			
Transient accommodations tax			108,500,000
Interest			197,076
Net increase in the fair value of investments			13,249
Other			221,116
Total general revenues			108,931,441
Transfers to others			(30,000)
Change in net position			14,175,297
Net position at June 30, 2017, as restated (See Note 10)			70,690,511
Net position at June 30, 2018			$ 84,865,808

See accompanying notes to the financial statements.

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

BALANCE SHEET – GOVERNMENTAL FUNDS

As of June 30, 2018

	Tourism Special Fund	Convention Center Enterprise Special Fund	Tourism Emergency Special Fund	Total Governmental Funds
Assets				
Cash in bank	$72,075,948	$20,845,644	$ 4,200,024	$ 97,121,616
Investments	-	-	799,976	799,976
Accounts receivable	57,931	-	-	57,931
Other assets	547,592	-	-	547,592
Total assets	$72,681,471	$20,845,644	$ 5,000,000	$ 98,527,115
Liabilities				
Vouchers payable	$ 2,610,587	$ 469,795	$ -	$ 3,080,382
Due to State Department of Budget and Finance	-	19,283,451	-	19,283,451
Accrued wages and employee benefits payable	101,361	10,874	-	112,235
Total liabilities	2,711,948	19,764,120	-	22,476,068
Fund balances				
Committed	69,969,523	1,081,524	5,000,000	76,051,047
Total fund balances	69,969,523	1,081,524	5,000,000	76,051,047
Total liabilities and fund balances	$72,681,471	$20,845,644	$ 5,000,000	

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.	204,031,141
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.	20,649,738
Vouchers payable for accrual of construction in progress for capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(317,948)
Unmatured debt obligation to the State Department of Budget and Finance, including accrued interest, are not due and payable in the current period and, therefore, are not reported in the governmental funds. See Note 8.	(204,826,783)
Accrued vacation, postemployment liability, and net pension 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.	(12,065,136)
Deferred outflows of resources and deferred inflows of resources related to postemployment and pensions are not reported in governmental funds.	1,343,749
Net position of governmental activities	$ 84,865,808

See accompanying notes to the financial statements.

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

	Tourism Special Fund	Convention Center Enterprise Special Fund	Tourism Emergency Special Fund	Total Governmental Funds
Revenues				
Transient accommodations tax	$ 82,000,000	$ 26,500,000	$ -	$ 108,500,000
Hawaii Convention Center operations	-	10,507,768	-	10,507,768
Interest	149,397	47,679	-	197,076
Net increase in the fair value of investments	9,589	3,660	-	13,249
Other	170,428	50,688	-	221,116
Total revenues	82,329,414	37,109,795	-	119,439,209
Expenditures				
Contract expenditures	68,780,078	19,393,998	-	88,174,076
Interest on debt obligation to State Department of Budget and Finance	-	26,426,917	-	26,426,917
Personnel	2,638,209	359,569	-	2,997,778
Administrative and general	744,609	11,586	-	756,195
Other	208,298	113,459	-	321,757
Total expenditures	72,371,194	46,305,529	-	118,676,723
Excess (deficiency) of revenues over expenditures	9,958,220	(9,195,734)	-	762,486
Other financing sources (uses)				
Transfers in (out)	(4,940,679)	4,940,679	-	-
Transfers to others	(30,000)	-	-	(30,000)
Total other financing sources (uses)	(4,970,679)	4,940,679	-	(30,000)
Excess of revenues over expenditures and other financing sources (uses)	4,987,541	(4,255,055)	-	732,486
Fund balances at June 30, 2017	64,981,982	5,336,579	5,000,000	
Fund balances at June 30, 2018	$ 69,969,523	$ 1,081,524	$ 5,000,000	

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.	(1,283,051)
Difference between accounting for cash paid to AEG and DAGS for future capital expenditures in the statement of activities and in the governmental funds.	(1,842,299)
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.	16,580,000
Difference between accounting for interest expense in the statement of activities and in the governmental funds.	497,400
Accrued vacation, postemployment liability and net pension 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.	(509,239)
Change in net position	$ 14,175,297

See accompanying notes to the 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, CONVENTION CENTER ENTERPRISE SPECIAL FUND, AND TOURISM EMERGENCY SPECIAL FUND

For the Year Ended June 30, 2018

	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	$ 88,515,000	$ 88,515,000	$ 82,000,000	$ (6,515,000)	$ 26,500,000	$ 26,500,000	$ 26,500,000	$ -
Hawaii Convention Center Operations	-	-	-	-	21,383,616	21,383,616	10,645,881	(10,737,735)
Interest	-	-	140,526	140,526	-	-	39,204	39,204
Other	-	-	170,428	170,428	-	-	50,688	50,688
Total revenues	88,515,000	88,515,000	82,310,954	(6,204,046)	47,883,616	47,883,616	37,235,773	(10,647,843)
Expenditures	88,515,000	88,515,000	77,448,886	(11,066,114)	52,854,295	52,854,295	40,358,132	(12,496,163)
Excess (deficiency) of revenues over expenditures	-	-	4,862,068	4,862,068	(4,970,679)	(4,970,679)	(3,122,359)	1,848,320
Other financing sources (uses)	-	-	(30,000)	(30,000)	4,970,679	4,970,679	4,940,679	(30,000)
Excess of revenues over expenditures and other financing sources (uses)	$ -	$ -	$ 4,832,068	$ 4,832,068	$ -	$ -	$ 1,818,320	$ 1,818,320

(Continued)

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

STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (BUDGETARY BASIS) – TOURISM SPECIAL FUND, CONVENTION CENTER ENTERPRISE SPECIAL FUND, AND TOURISM EMERGENCY SPECIAL FUND (Continued)

For the Year Ended June 30, 2018

	Tourism Emergency Special Fund			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance- Favorable (Unfavorable)
Revenues				
Transient accommodations tax	$ -	$ -	$ -	$ -
Hawaii Convention Center Operations	-	-	-	-
Interest	-	-	-	-
Other	-	-	-	-
Total revenues	-	-	-	-
Expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other financing sources	-	-	-	-
Excess of revenues over expenditures and other financing sources (uses)	$ -	$ -	$ -	$ -

See accompanying notes to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Hawaii Tourism Authority (Authority), a discretely presented component unit of the State of Hawaii (State), have been prepared in accordance with accounting principles generally accepted in the United States of America (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 State of Hawaii, Department of Business, Economic Development, and Tourism, 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 of 12 voting members, including those recommended by the State Legislature. The Governor of the State 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 Financial Statements

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.

(1) Summary of Significant Accounting Policies (continued)

(b) Government-Wide and Fund Financial Statements (continued)

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, 2018 reports restricted net position of $41,059,956, which is restricted by enabling legislation with oversight by the Authority's board of directors.

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.

Tourism Emergency Special Fund – The Tourism Emergency Special Fund (Emergency Fund) is used to account for functions related to the maintenance of a tourism emergency fund.

(1) Summary of Significant Accounting Policies (continued)

(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 is the transient accommodations tax (TAT) collected by the State. The TAT is assessed at a rate of 10.25% (9.25% prior to January 1, 2018) on the gross rental proceeds derived from providing transient accommodations.

Effective July 1, 2015, the maximum amount of funding of TAT revenues that may be deposited into the Convention Center Fund and the Tourism Fund was $26,500,000 and $82,000,000, respectively. Effective July 1, 2018, the maximum amount of funding of TAT revenues that may be deposited into the Convention Center Fund and the Tourism Fund was $16,500,000 and $79,000,000, respectively.

Of the total TAT revenues deposited into the Tourism Fund, 0.5% is allocated to a subaccount in the Tourism Fund to provide funding for the safety and security budget, pursuant to Section 237D-6.5; and beginning July 1, 2007, funds shall be deposited into the Emergency Fund, established in Section 201 B-10, in a manner sufficient to maintain a fund balance of $5,000,000 in fund.

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.

(1) Summary of Significant Accounting Policies (continued)

(e) Investments

Investments are reported at fair value within the fair value hierarchy established by GAAP. Investments in U.S. Federal agency obligations are reported at fair value based on quoted prices or other observable inputs, including pricing matrices.

Fair Value Measurements

The Authority measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(1) Summary of Significant Accounting Policies (continued)

(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 – five to seven 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) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (ERS), and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

(1) Summary of Significant Accounting Policies (continued)

(i) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employers-Union Health Benefits Trust Fund (EUTF), and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

(j) Marketing Contractors

The Authority contracts with the following nine 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 – United States of America
- a.Link LLC, dba Hawaii Tourism Japan – Japan
- Hills Balfour Limited – Europe
- Aviareps Marketing Garden (Holdings) Ltd. – Korea
- The Walshe Group, dba Hawaii Tourism Oceania – Australia and New Zealand
- The Happy Traveller LLC dba Brandstory Inc. PTE Ltd. – China & Hong Kong
- JWI Marketing Co. Ltd. – Taiwan
- VoX International Inc. – Canada
- Aviareps Malaysia – South-East Asia

(k) Center Contract

The Authority contracts with Anschutz Entertainment Group (AEG), a private contractor, 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. In October 2018, the Authority's board of directors authorized extending the AEG contract by one year to December 31, 2019. The management fees paid to AEG for the year ended June 30, 2018 amounted to $437,800.

(l) 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.

(1) Summary of Significant Accounting Policies (continued)

(m) 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, and it is reasonably possible that such differences will occur within the near term.

(n) Recently Adopted Accounting Standards

GASB Statement No. 75

During fiscal year 2018, the Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Statement No. 75 establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Statement No. 75 replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.*

The adoption of Statement No. 75 has no impact on the Authority's governmental fund financial statements, which continue to report expenditures in the amount of statutorily required payments. However, adoption has resulted in the restatement of the Authority's fiscal year 2017 government-wide financial statements to reflect the reporting of a net OPEB liability in accordance with the provisions of Statement No. 75. See Note 10 for the effect of the restatement.

(1) Summary of Significant Accounting Policies (continued)

(n) Recently Adopted Accounting Standards (continued)

GASB Statement No. 81

GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. This Statement has no impact on the Authority's financial statements.

GASB Statement No. 83

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Authority has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 84

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Authority has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 85

The GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This Statement did not have a material effect on the Authority's financial statements.

(1) Summary of Significant Accounting Policies (continued)

(n) Recently Adopted Accounting Standards (continued)

GASB Statement No. 86

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This Statement did not have a material effect on the Authority's financial statements.

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Authority has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 88

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The Authority has not yet determined the effect this Statement will have on its financial statements.

(1) Summary of Significant Accounting Policies (continued)

(n) Recently Adopted Accounting Standards (continued)

GASB Statement No. 89

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement replaces Paragraph 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 90

The GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The Authority has not yet determined the effect this Statement will have on its financial statements.

(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, Convention Center Fund, and Emergency 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 Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency Special Fund represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

(2) Budgeting and Budgetary Control (Continued)

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, 2018, there were no expenditures in excess of appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, Tourism Special 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 Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency Special Fund are presented in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – Tourism Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency Special 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 Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency Special Fund for the fiscal year ended June 30, 2018 is as follows:

	Tourism Special Fund	Convention Center Enterprise Special Fund	Tourism Emergency Special Fund
Excess of revenues over expenditures and other financing sources (uses) – budgetary basis	$ 4,832,068	$ 1,818,320	$ -
Reserved for encumbrances	46,055,367	2,485,915	-
Expenditures for liquidation of prior fiscal year encumbrances	(44,294,863)	(1,825,090)	-
Net accrued revenues and expenditures	(1,605,031)	(6,734,200)	-
Excess of revenues over expenditures and other financing sources (uses) – GAAP basis	$ 4,987,541	$ (4,255,055)	$ -

(3) Cash

(a) Cash in Department of Accounting and General Services

The State Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The HRS authorizes the Director of Finance to invest in obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The State Director of Finance pools and invests any monies of the Authority, which in the Director's judgment, are in excess of the amount necessary for meeting the specific requirements of the Authority. Investment earnings are allocated to the Authority based on its equity interest in the pooled monies.

For purposes of the financial statements, the Authority considers all cash held in the State Treasury and investments with maturity of three months or less when purchased to be cash equivalents.

(b) 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, 2018, the Authority's deposits with the financial institution totaled $97,121,616 and had a corresponding bank balance of $129,374.

(c) 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. The Authority's custodial risk resulting from uninsured and uncollateralized amounts totaled $0 at June 30, 2018.

(4) Investments

At June 30, 2018, the fair value measurements reportable by the Authority consisted of investments in U.S. federal agency obligations valued at quoted market prices, a Level 1 valuation input. There were no investments for which Level 2 and 3 valuation inputs were required. The following table presents the fair value of the Authority's investments by level of input at June 30, 2018:

		Fair Value Measurements Using		
	Fair Value at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Emergency Funds				
U.S. Federal agency notes	$ 799,976	$ 799,976	$ -	$ -
Total Authority's investments	$ 799,976	$ 799,976	$ -	$ -

The following table presents the Authority's investments by maturity period at June 30, 2018:

			Maturity (in years)	
Investment type	Fund	Fair Value	Less than 1	1-5
U.S. Federal agency notes	Emergency Fund	$ 799,976	$ 799,976	$ -
Total Authority's investments		$ 799,976	$ 799,976	$ -

(4) Investments (Continued)

(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. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2018

(5) Capital Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2018:

	Balance at 6/30/2017	Additions	Deductions	Balance at 6/30/2018
Capital assets not being depreciated				
Land	$131,496,508	$ -	$ -	$131,496,508
Construction in progress	5,304,999	4,846,188	-	10,151,187
Total capital assets not being depreciated	136,801,507	4,846,188	-	141,647,695
Other capital assets				
Buildings and improvements	211,528,761	100,800	-	211,629,561
Furniture, fixtures, and equipment	5,439,537	-	(58,719)	5,380,818
Total other capital assets	216,968,298	100,800	(58,719)	217,010,379
Less accumulated depreciation for				
Buildings and improvements	143,200,961	7,028,619	-	150,229,580
Furniture, fixtures, and equipment	4,206,721	249,351	(58,719)	4,397,353
Total accumulated depreciation	147,407,682	7,277,970	(58,719)	154,626,933
Total capital assets, net	$206,362,123	$(2,330,982)	$ -	$204,031,141

Depreciation expense charged to the Hawaii Convention Center management function amounted to $7,277,970 for the fiscal year ended June 30, 2018. At June 30, 2018, vouchers payable include $317,948 in accrued additions to construction in progress.

(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, 2018, unspent funds amounted to $20,649,738.

(7) Accrued Vacation

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2018:

Balance at June 30, 2017	$344,847
Additions	157,448
Deletions	(158,706)
Balance at June 30, 2018	343,589
Less current portion	(122,552)
Total accrued vacation, long-term	$221,037

(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 Convention Center Authority (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 required 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 was not directly related to the actual debt service on the general obligation bonds issued to finance the Center. The Authority's ability to meet its obligations in accordance with the payment plan was dependent upon the funds received by the Convention Center Fund. At June 30, 2018, the outstanding principal and aggregate interest amounts required to be reimbursed by the Authority were $160,225,289 and $77,641,953, respectively. Effective July 1, 2018, Act 086, Session Laws of Hawaii 2018, canceled the remaining outstanding amount on the debt service payments.

(8) Due to State Department of Budget and Finance (continued)

For the year ended June 30, 2018, the Authority was required to reimburse Budget and Finance $26,426,917 for principal and interest. For the year ended June 30, 2018, the Authority recorded $9,349,517 of interest expense on the debt obligation to the Budget and Finance in the statement of activities. At June 30, 2018, the statement of net position reflected the total outstanding liabilities of the Authority as follows:

Matured interest	$ 19,283,451
Unmatured current interest	44,601,494
Unmatured current principal	160,225,289
Total	$224,110,234

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

June 30, 2017	$234,760,717
Additions	9,349,517
Reductions	(20,000,000)
June 30, 2018	$224,110,234

(9) Employee Benefits

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

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at http://www.ers.ehawaii.gov.

(9) Employee Benefits (continued)

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

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

Noncontributory Class

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

(9) Employee Benefits (continued)

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

Noncontributory Class (continued)

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least 10 years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. Employees with five years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

(9) Employee Benefits (continued)

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

Contributory Class for Membes Hired Prior to July 1, 2012 (continued)

Death Benefits

For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

(9) Employee Benefits (continued)

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

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits

For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

(9) Employee Benefits (continued)

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

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2017 were 25% for police officers and firefighters and 17% for all other employees. Contributions to the pension plan from the Authority was $306,935 for the year ended June 30, 2018.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police and firefighters increases to 28% on July 1, 2017; 31% on July 1, 2018; 36% on July 1, 2019; and 41% on July 1, 2020, and the rate for all other employees increases to 18% on July 1, 2017; 19% on July 1, 2018; 22% on July 1, 2019; and 24% on July 1, 2020.

(9) Employee Benefits (continued)

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

Contributions (continued)

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Authority's proportionate share of the net pension liability is $6,157,263. The Authority's proportionate share of the State's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State allocates the net pension liability to the various departments and agencies based upon a systematic methodology.

There was no change in actuarial assumptions as of June 30, 2016 to June 30, 2017. There were no changes between the measurement date, June 30, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2018, the Authority recognized pension expense of $787,478. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 91,831	$ (79,398)
Changes of assumptions	778,448	-
Net difference between projected and actual earnings on pension plan investments	404,852	(502,875)
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	24,326	(17,600)
The Authority's contributions subsequent to the measurement date	306,935	-
Total	$ 1,606,392	$ (599,873)

(9) Employee Benefits (continued)

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The $306,935 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30th	
2019	$ 165,024
2020	$ 245,622
2021	$ 206,552
2022	$ 80,843
2023	$ 1,543

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the ERS, on December 12, 2016, based on the most recent experience study dated July 5, 2016:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return, compounded annually including inflation	7.00%

There were no changes to ad hoc postemployment benefits including cost of living adjustments (COLA). Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the RP-2014 mortality table based on the occupation of the member.

(9) Employee Benefits (continued)

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

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Strategic Allocation (risk-based classes)	Target Allocation	Long-Term Expected Real Rate of Return
Broad growth	63.0%	5.80%
Principal protection	7.0%	0.02%
Real return	10.0%	3.60%
Crisis risk offset	20.0%	3.10%
Total Investments	100.00%	

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(9) Employee Benefits (continued)

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

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
The Authority's proportionate share of the net pension liability	$7,981,700	$6,157,263	$4,652,922

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at http://www.ers.ehawaii.gov.

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the Hawaii Employer – Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues a publicly available annual financial report that can be obtained at http://eutf.hawaii.gov.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

State of Hawaii Employees Covered by Benefit Terms

Inactive plan members or beneficiaries currently receiving benefits	35,374
Inactive plan members entitled to but not yet receiving benefits	8,124
Active plan members	50,101
Total plan members	93,599

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits (continued)

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Authority were $344,648 for the year ended June 30, 2018. The employer is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Authority reported a net OPEB liability of $5,564,284. The net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the net OPEB liability.

For the year ended June 30, 2018, the Authority recognized OPEB expense of $374,603. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ (7,418)
The Authority's contributions subsequent to the measurement date	344,648	-
Total	$ 344,648	$ (7,418)

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

The $344,648 reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30th	
2019	$ (1,854)
2020	$ (1,854)
2021	$ (1,854)
2022	$ (1,856)

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii, on January 8, 2018, based on the experience study covering the five year period ended June 30, 2015:

Inflation	2.50%
Payroll growth rate	3.50% to 7.00%, including inflation
Investment rate of return	7.00% per year, compounded annual including inflation

Healthcare Cost Trend Rates

PPO*	Initial rates of 6.60%, 6.60% and 9.00%; declining to a rate of 4.86% after 14 years
HMO*	Initial rate of 9.00%; declining to a rate of 4.86% after 14 years
Part B & Base Monthly Contribution (BMC)	Initial rates of 2.00% and 5.00%; declining to a rate of 4.70% after 14 years
Dental	3.50%
Vision	2.50%
Life Insurance	0.00%

* Blended rates for medical and prescription drug

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits (continued)

Actuarial Assumptions (continued)

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational morality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Strategic Allocation (risk-based classes)	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equity	19.0%	5.50%
International equity	19.0%	7.00%
U.S. microcap	7.0%	7.00%
Private equity	10.0%	9.25%
REITs	6.0%	5.85%
Core real estate	10.0%	3.80%
Global options	7.0%	5.50%
Core bonds	3.0%	0.55%
Long treasuries	7.0%	1.90%
Trend following	7.0%	1.75%
TIPS	5.0%	0.50%
Total Investments	100.00%	

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits (continued)

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.56% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-year Municipal GO AA index"). Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Beneifts and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at http://eutf.hawaii.gov.

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits (continued)

Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability of the Authority. The ending balances are as of the measurement date, July 1, 2017.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	$5,780,610	$ 288,377	$5,492,233
Service cost	98,857	-	98,857
Interest on the total OPEB liability	300,174	-	300,174
Employer contributions	-	295,134	(295,134)
Net investment income	-	29,549	(29,549)
Benefit payments	(148,411)	(148,411)	-
Administrative expense	-	(76)	76
Other	-	2,373	(2,373)
Net changes	250,620	178,569	72,051
Ending balance	$6,031,230	$ 466,946	$5,564,284

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the Authority's net OPEB liability calculated using the discount rate of 7.00%, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
The Authority's proportionate share of the net OPEB liability	$6,530,703	$5,564,284	$4,782,250

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates (continued)

The following table presents the Authority's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the Authority's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
The Authority's proportionate share of the net OPEB liability	$4,737,221	$5,564,284	$6,608,130

(10) Restatement of 2017 Net Position

The net position of the Authority as of June 30, 2017 has been restated for the adoption of GASB Statement No. 75. The amount and impact of the restatement is as follows:

	Total Governmental Activities
Postemployment liability as reported	$ 2,430,933
Postemployment liability as restated	(5,492,233)
Deferred outflows of resources related to postemployment as reported	-
Deferred outflows of resources related to postemployment as restated	295,134
Impact on net position	(2,766,166)
Net position at June 30, 2017 as reported	73,456,677
Net position at June 30, 2017 as restated	$ 70,690,511

(11) Commitments and Contingencies

(a) Accumulated Sick Leave Pay

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, 2018, accumulated sick leave was $740,437 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.

(c) Legal Contingencies

The Authority may be subject to legal proceedings, claims, and litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Hawaii Tourism Authority:

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawaii Tourism Authority (Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Topa Financial Center
700 Bishop Street, Suite 1040
Honolulu, Hawaii 96813
Telephone (808) 531-1040
Facsimile (808) 531-1041
www.cwassociatescpas.com

Compliance and Other Matters

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

Purpose of this Report

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

CW Associates, CPAs

Honolulu, Hawaii
December 12, 2018