



Stadium Authority
State of Hawaii
(A Component Unit of the State of Hawaii)

Financial Statements and Supplementary Information
(With Independent Auditors' Report)

June 30, 2018

Submitted by
THE AUDITOR
STATE OF HAWAII

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

Financial Statements and Supplementary Information

June 30, 2018

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SECTION I
INTRODUCTION SECTION

December 3, 2018

The Auditor
State of Hawaii:

We have completed our audit of the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2018. We transmit herewith our independent auditors' reports containing our opinion on those financial statements and our 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*.

Audit Objectives

The objectives of the audit were as follows:

1. To provide an opinion on the fair presentation of the Authority's financial statements in accordance with accounting principles generally accepted in the United States of America.
2. To consider the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.
3. To perform tests of the Authority's compliance with 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.

Scope of Audit

We performed an audit of the Authority's financial statements as of and for the year ended June 30, 2018, 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.

As part of the audit of the Authority's financial statements, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

Organization of Report

This report has been organized into three parts as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.
2. The Financial Section includes management's discussion and analysis, the Authority's financial statements, and the related notes as of and for the year ended June 30, 2018, and our independent auditors' report thereon.
3. The Internal Control and Compliance Section contains our independent auditors' report on the Authority's 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*.

* * * * *

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

Very truly yours,

KKDL Y LLC

SECTION II
FINANCIAL SECTION

Independent Auditors' Report

The Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to financial statements.

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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principles

As discussed in Note 2 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 85, *Omnibus 2017*, effective July 1, 2017. Our opinion is not modified with respect to these matters.

Relationship to the State of Hawaii

As discussed in Note 1 to the financial statements, the financial statements of the Authority are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is 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, the changes in its financial position, or, where applicable, its cash flows 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.

Other Matter – Required Supplementary Information

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 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 grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's 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.

KKDL Y LLC

Honolulu, Hawaii
December 3, 2018

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

Management's Discussion and Analysis

June 30, 2018

Management of the Stadium Authority, State of Hawaii (the Authority) offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of Aloha Stadium as of and for the year ended June 30, 2018. This management's discussion and analysis is designed to assist the reader in focusing on the Authority's financial issues and activities to identify any significant changes in the Authority's financial position. The Authority encourages readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Overview of the Financial Statements

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

The financial statements are designed to provide the reader with a broad overview of the Authority's finances in a manner similar to private sector business. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the full accrual basis of accounting. The difference between these items are reported as net position. Revenues are recognized in the period earned and expenses are recognized in the period incurred. 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 periods (e.g., uncollected rental receipts, earned but unused vacation leave, etc.). These financial statements present the financial position, the changes in net position, and cash flows that are attributable to the transactions of the Authority.

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Statement of Cash Flows

The statement of cash flows presents the increases and decreases in cash from the Authority's operating, investing, and financing activities during the fiscal year.

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Management's Discussion and Analysis

June 30, 2018

Notes to Financial Statements

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

Condensed Financial Information

The following are summaries from the Authority's financial statements as of and for the years ended June 30, 2018 and 2017 (in thousands):

	<u>2018</u>	<u>2017</u>
Net Position:		
Assets:		
Current and other assets	\$ 5,524	\$ 4,883
Capital assets, net	<u>87,149</u>	<u>85,412</u>
Total assets	<u>92,673</u>	<u>90,295</u>
Deferred outflows of resources	<u>1,826</u>	<u>1,991</u>
Liabilities:		
Current liabilities	1,842	1,057
Noncurrent liabilities	<u>12,817</u>	<u>9,721</u>
Total liabilities	<u>14,659</u>	<u>10,778</u>
Deferred inflows of resources	<u>102</u>	<u>106</u>
Net position:		
Investment in capital assets	87,149	85,412
Restricted	92	134
Unrestricted	<u>(7,503)</u>	<u>(4,144)</u>
Total net position	<u>\$ 79,738</u>	<u>\$ 81,402</u>
Changes in Net Position:		
Operating revenues:		
Rentals from attractions	\$ 5,048	\$ 4,853
Commissions from food and beverage concessionaire	999	1,018
Parking	997	1,013
Other	<u>549</u>	<u>518</u>
Total operating revenues	<u>7,593</u>	<u>7,402</u>
Operating expenses:		
Personnel services	(4,892)	(4,949)
Depreciation	(3,830)	(3,791)
Other	<u>(3,200)</u>	<u>(2,963)</u>
Total operating expenses	<u>(11,922)</u>	<u>(11,703)</u>
Operating loss	(4,329)	(4,301)
Nonoperating revenues (expenses):		
Interest and investment income, net	20	28
Loss on disposal of capital assets	<u>-</u>	<u>(1,106)</u>
Loss before capital contributions	(4,309)	(5,379)
Capital contributions	<u>5,493</u>	<u>6,391</u>
Change in net position	<u>1,184</u>	<u>1,012</u>
Net position at beginning of year, as previously reported	81,402	80,390
Restatement	<u>(2,848)</u>	<u>-</u>
Net position at beginning of year, as restated	<u>78,554</u>	<u>80,390</u>
Net position at end of year	<u>\$ 79,738</u>	<u>\$ 81,402</u>

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June 30, 2018

Change in Accounting Principles

Effective July 1, 2017, the Authority adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement No. 75). This statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

Simultaneously with the adoption of Statement No. 75, the Authority adopted the provisions of GASB Statement No. 85, *Omnibus 2017* (Statement No. 85). The objective of this statement is to address practice issues that have been identified during the implementation and application of certain GASB statements.

As further discussed in Note 2, the cumulative effect of applying the provisions of these statements has been reported as a restatement of beginning net position for the year ended June 30, 2018. Specifically, the adoption of Statement Nos. 75 and 85 had the effect of decreasing net position as of June 30, 2017 by \$2,848,000. In addition, the Authority recorded a deferred outflow of resources related to other postemployment benefits of \$427,000, a net other postemployment benefits liability of \$6,485,000, and a deferred inflow of resources related to other postemployment benefits of \$8,000 as of June 30, 2018. The restatement of the comparative financial data for the prior period presented was not practical due to the unavailability of information from the OPEB plan.

Financial Analysis

Current and other assets increased by \$640,000 or 13.1% from the previous fiscal year. The increase is primarily due to the increase in cash and cash equivalents of \$676,000.

Capital assets, net increased by \$1,737,000 or 2.0% from the previous fiscal year. The increase is primarily due to the net increase in construction in progress (CIP) of \$5,395,000, which was offset by the depreciation of capital assets, which amounted to \$3,830,000. The Authority's investment in capital assets as of June 30, 2018 amounted to \$87,149,000 (net of accumulated depreciation of \$119,931,000). This investment in capital assets includes the stadium structure, land and land improvements, CIP, and equipment, furniture, and fixtures.

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

Current liabilities increased by \$785,000 or 74.3% from the previous fiscal year. Fluctuations in the current liabilities is primarily due to the unearned concert revenue of \$731,000 from ticket sales.

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Management's Discussion and Analysis

June 30, 2018

Noncurrent liabilities increased by \$3,096,000 or 31.8% from the previous fiscal year. The increase is primarily due to an increase in the Authority's allocated share of the State of Hawaii's other postemployment benefits liability of \$3,241,000, offset by a decrease in the Authority's allocated share of the State of Hawaii's pension liability of \$171,000.

Net position decreased by \$1,664,000 or 2.0% from the previous fiscal year. The decrease is due primarily to current year's operating loss of \$4,329,000 and the cumulative effect of adopting Statement Nos. 75 and 85 of \$2,848,000, offset by current year's capital contributions of \$5,493,000.

By far, the largest portion of the Authority's net position (\$87,149,000) reflects its investment in capital assets. The Authority uses these capital assets to provide services to the customers of Aloha Stadium; consequently, these assets are not available for future spending. An additional portion of the Authority's net position (\$92,000) represents restricted resources that are restricted for the maintenance of the field in accordance with an advertising agreement. The remaining portion of the Authority's net position is unrestricted and reflects a deficit balance of \$7,503,000, due primarily to the recording of the Authority's allocated share of the State's net pension and net other postemployment benefits liabilities.

Operating revenues increased by \$191,000 or 2.6% from the previous fiscal year. The increase was mainly due to an increase in rentals from attractions revenues of \$195,000.

Operating expenses increased by \$219,000 or 1.9% from the previous fiscal year. The increase was due primarily to increases in other expenses of \$237,000.

Capital contributions decreased by \$898,000 or 14.1% from the previous fiscal year. The decrease in capital contributions is primarily due to the decrease in ongoing CIP projects of Aloha Stadium improvements.

Requests for Information

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

General information relating to the Authority and Aloha Stadium can be found at the Authority's website: <http://alohastadium.hawaii.gov/>.

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Statement of Net Position

June 30, 2018

Assets:

Current assets:

Cash and cash equivalents (Notes 4, 7, and 8)	\$ 4,901,111
Receivables from concessionaire and other, net (Note 7)	622,256
Total current assets	5,523,367

Capital assets, net (Note 5)	87,149,377
Total assets	92,672,744

Deferred Outflows of Resources:

Related to pension (Note 6)	1,399,161
Related to other postemployment benefits (Notes 2 and 6)	426,680
Total deferred outflows of resources	1,825,841

Liabilities:

Current liabilities:

Vouchers payable	213,507
Accrued payroll	344,646
Accrued vacation – due within one year (Note 6)	186,312
Workers compensation	210,597
Due to State General Fund for advances for Imprest Fund	30,000
Other (Note 7)	857,117
Total current liabilities	1,842,179

Net other postemployment benefits liability (Notes 2 and 6)	6,484,634
Net pension liability (Note 6)	5,909,158
Accrued vacation – due in more than one year (Note 6)	317,867
Licensees' deposits (Note 7)	105,114
Total liabilities	14,658,952

Deferred Inflows of Resources:

Related to pension (Note 6)	93,632
Related to other postemployment benefits (Notes 2 and 6)	7,930
Total deferred inflows of resources	101,562

Net Position:

Investment in capital assets	87,149,377
Restricted (Note 8)	92,441
Unrestricted	(7,503,747)
Total net position	\$ 79,738,071

See accompanying notes to financial statements.

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Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2018

Operating revenues:	
Rentals from attractions	\$ 5,048,087
Commissions from food and beverage concessionaire	999,410
Parking	996,654
Advertising	461,095
Other	87,612
	7,592,858
Operating expenses:	
Personnel services (Note 6)	4,892,229
Depreciation (Note 5)	3,830,347
Utilities	1,094,664
Special fund assessments (Note 11)	454,022
Security	445,552
Repairs and maintenance	386,367
Professional services	285,312
Other	532,324
	11,920,817
Operating loss	(4,327,959)
Nonoperating revenues:	
Interest and investment income (Note 4)	19,507
Loss before capital contributions	(4,308,452)
Capital contributions	5,493,269
Change in net position	1,184,817
Net position at beginning of year, as previously reported	81,401,682
Restatement (Note 2)	(2,848,428)
Net position at beginning of year, as restated	78,553,254
Net position at end of year	\$ 79,738,071

See accompanying notes to financial statements.

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Statement of Cash Flows

Year Ended June 30, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 7,591,593
Cash paid to suppliers	(2,449,890)
Cash paid to employees	<u>(4,447,406)</u>
Net cash provided by operating activities	<u>694,297</u>
Cash flows from investing activities:	
Acquisition of capital assets	(74,444)
Interest and investment income	<u>19,507</u>
Net cash used in investing activities	<u>(54,937)</u>
Net increase in cash and cash equivalents	639,360
Cash and cash equivalents at beginning of year	<u>4,261,751</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,901,111</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (4,327,959)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	3,830,347
Increase in receivables from concessionaires and other	(1,265)
Change in deferred outflows, liabilities, and deferred inflows:	
Deferred outflows of resources	166,017
Vouchers payable	(13,471)
Accrued payroll	8,995
Accrued vacation	22,106
Workers compensation	31,346
Net other postemployment benefits liability	392,553
Net pension liability	(171,281)
Licensees' deposits	9,285
Other	752,537
Deferred inflows of resources	<u>(4,913)</u>
Net cash provided by operating activities	<u><u>\$ 694,297</u></u>
Supplemental disclosure of noncash capital and related financing activity:	
Capital assets contributed	<u><u>\$ 5,493,269</u></u>

As described in Note 2, the adoption of the GASB postemployment standards resulted in the restatement of net position (\$2,848,428) as of June 30, 2017, and the recording of deferred outflows of resources (\$426,680), net other postemployment benefits liability (\$6,484,634), and deferred inflows of resources (\$7,930) as of June 30, 2018.

See accompanying notes to financial statements.

STADIUM AUTHORITY
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Notes to Financial Statements

June 30, 2018

(1) Financial Reporting Entity

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

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

The Authority is a blended component unit of the State of Hawaii (the State). The State Comptroller maintains the central accounts for all the State's funds and publishes financial statements for the State annually, which include the Authority's financial activities. The accompanying financial statements are intended to present the financial position, the changes in financial position, and cash flows that are attributable to the transactions of the Authority.

(2) Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

Basis of Accounting

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

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

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Notes to Financial Statements

June 30, 2018

Cash and Cash Equivalents

Cash and cash equivalents reported in the statements of net position and cash flows include amounts held in State Treasury, cash in bank accounts, and cash on hand.

The State's investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP. Investment earnings are allocated to the pool participants, including the Authority, based upon their equity interest in the pooled monies.

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.

Capital Assets

Capital assets acquired by purchase are recorded at cost. Contributed capital assets are recorded at estimated fair market value at the date received.

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

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

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Notes to Financial Statements

June 30, 2018

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

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The deferred outflow of resources related to pension and OPEB resulted from changes in assumptions, differences between expected and actual experience, changes in proportion and differences between contributions and proportionate share of contributions, which will be amortized over five years, and the Authority's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans, which will be recognized as a reduction of the net pension liability and net OPEB liability in the subsequent fiscal year. The deferred inflow of resources related to pension and OPEB resulted from differences between expected and actual experience, changes in proportion and differences between contributions and proportionate share of contributions, and the net difference between projected and actual earnings on plan investments which will be amortized over five years.

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the accompanying financial statements.

Net Position

Net position is classified in the following components: investment in capital assets, restricted, and unrestricted net position. Investment in capital assets consists of capital assets, net of accumulated depreciation. Restricted net position consists of funds subject to external restrictions on how they may be used. Unrestricted net position may be used to meet the Authority's ongoing obligations such as future operational expenses, replacement equipment, and personnel costs. The deficit balance in the unrestricted net position is due primarily to recording the net pension liability and the net other postemployment benefits liability for financial statement reporting purposes (see Note 6).

Capital Contributions

The State of Hawaii pays for portions of construction costs related to various capital projects at the Aloha Stadium. These nonexchange transactions are recorded as nonoperating capital contributions in the accompanying statement of revenues, expenses, and changes in net position.

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Notes to Financial Statements

June 30, 2018

Pension

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 (the 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. The ERS' investments are reported at fair value.

Other Postemployment Benefits (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 Employer-Union Health Benefits Trust Fund (the 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 the benefit terms. Investments are reported at their fair value.

Change in Accounting Principles

Effective July 1, 2017, the Authority adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement No. 75). This statement addresses accounting and financial reporting for OPEB that are provided to the employees of state and local governmental employers through OPEB plans administered through trusts or equivalent arrangements meeting certain criteria. This statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

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

Simultaneously with the adoption of Statement No. 75, the Authority adopted the provisions of GASB Statement No. 85, *Omnibus 2017* (Statement No. 85). The objective of this statement is to address practice issues that have been identified during the implementation and application of certain GASB statements.

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The Authority reported the cumulative effect of the change in accounting principles by restating beginning net position in the accompanying 2018 financial statements. Specifically, the adoption of Statement Nos. 75 and 85 had the effect of decreasing net position as of June 30, 2017 by \$2,848,428. In addition, the Authority recorded a deferred outflow of resources related to other postemployment benefits of \$426,680, a net other postemployment benefits liability of \$6,484,634, and a deferred inflow of resources related to other postemployment benefits of \$7,930 as of June 30, 2018. Refer to Note 6 for additional information.

Recently Issued Accounting Pronouncements

GASB Statement No. 83

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement provides 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 is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this statement is to improve accounting and financial reporting for leases by governments. This 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 provisions of the contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently evaluating the impact that this statement will have on its financial statements.

Use of Estimates

The preparation of financial statements, in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Significant items subject to such estimates and assumptions include the valuation of receivables, capital assets, and the pension and postemployment liabilities. Actual results could differ from those estimates.

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(3) Budgeting

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

(4) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2018 consisted of the following:

Amounts held in State Treasury	\$ 3,830,959
Cash in bank	1,057,395
Petty cash and change funds	<u>12,757</u>
Total cash and cash equivalents	<u><u>\$ 4,901,111</u></u>

Cash in Bank

At June 30, 2018, the carrying value of the Authority's cash in bank balance was \$1,057,395 and the bank balance was \$1,045,012.

Amounts Held in State Treasury

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the pool participants based upon their equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

At June 30, 2018, amounts held in State Treasury by the Authority totaled \$3,830,959. The amounts held in State Treasury reported in the accompanying statement of net position reflects the Authority's relative position in the State's investment pool based upon the average monthly investment balance of each participant in the investment pool.

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Information relating to the cash and investments in State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the investment pool and collateralization of the investment pool balances is included in the comprehensive annual financial report (CAFR) of the State.

Cash and Cash Equivalents

The State maintains bank accounts for various purposes at locations throughout the State and the nation. Bank deposits for the State Treasury are under the custody of the Director of Finance. Cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

Investments

The State holds investments both for its own benefit and as an agent for other parties. Further, the State pools all excess funds into an investment pool that is administered by B&F. The pool's investment options are limited to investments listed in the Hawaii Revised Statutes (HRS).

At the end of each year, B&F allocates the investment pool amount to each of the participants. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The EUTF maintains a separate investment pool. The EUTF board is responsible for safekeeping these monies and has appointed an investment committee responsible for investing EUTF assets in compliance with HRS Sections 87A-24(2) and 88-119. Money is invested in accordance with the EUTF's investment policy.

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The following table presents the fair value of the State's investments by level of input at June 30, 2017 (amounts expressed in thousands):

	<u>Reported Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Primary government:				
Investments measured by fair value level:				
U.S. government securities	\$ 2,307,970	\$ 552,527	\$ 1,755,443	\$ -
Mutual funds	37,127	37,127	-	-
	<u>2,345,097</u>	<u>\$ 589,654</u>	<u>\$ 1,755,443</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Certificates of deposit	<u>1,242,753</u>			
Total investments	<u>\$ 3,587,850</u>			
Fiduciary funds:				
Investments measured by fair value level:				
Equity securities	\$ 413,652	\$ 413,652	\$ -	\$ -
U.S. government securities	306,888	47,645	259,243	-
Mutual funds	132,899	132,899	-	-
Derivatives	(148)	-	(148)	-
	<u>853,291</u>	<u>\$ 594,196</u>	<u>\$ 259,095</u>	<u>\$ -</u>
Investments measured by net asset value (NAV):				
Commingled funds:				
Domestic equity	358,322			
International equity	377,205			
Domestic core fixed income	224,097			
Domestic inflation-linked fixed income	52,061			
Alternative investments	<u>74,919</u>			
	1,939,895			
Investments measured at amortized cost:				
Certificates of deposit	<u>107,164</u>			
Total investments	<u>\$ 2,047,059</u>			
Invested securities lending collateral at NAV:				
Money market fund	<u>\$ 27,061</u>			

Information relating to the fair value of investments in the State's investment pool at June 30, 2018 will be included in the State's CAFR when issued.

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Cash and Cash Equivalents, Certificates of Deposit, and Repurchase Agreements

The State considers all cash and investments with original maturities of three months or less to be cash equivalents. The carrying amounts for cash equivalents, certificates of deposit, and repurchase agreements are measured at amortized cost.

Debt Securities, Equity Securities, Mutual Funds, Commingled Funds and Alternative Investments, and Money Market Funds

The following methods and assumptions were used by the State in estimating the fair value of its financial instruments:

Debt securities – Debt securities held by the State consist of U.S. government obligations including U.S. Treasury bills and U.S. Treasury notes and bonds. The fair value of these investments are based on quoted prices in active markets or other observable inputs, including pricing matrices. These investments are categorized in either Level 1 or 2 of the fair value hierarchy.

Equity securities – Equity securities held by the State are valued at the closing price reported on the active market on which the individual securities are traded. These investments are categorized in Level 1 of the fair value hierarchy.

Mutual funds – The mutual funds held by the State are open-ended mutual funds that are registered with the Securities Exchange Commission (SEC). The fair value of these mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. These investments are categorized in Level 1 of the fair value hierarchy.

Commingled funds and alternative investments – Investments in commingled funds and alternative investments are valued at the NAV of units of the investment vehicles. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities. The State has no unfunded commitments with regard to these commingled funds and alternative investments.

Money market funds – Investments in money market funds are valued at the NAV of the custodian bank liquid asset portfolio. NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the State's investments have fluctuated since June 30, 2017.

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The following table presents the investments by maturity period at June 30, 2017 (amounts expressed in thousands):

	Reported Value	Maturity (in years)		
		Less than 1	1-5	>5
Primary government:				
Certificates of deposit	\$ 1,242,753	\$ 1,187,710	\$ 55,043	\$ -
U.S. government securities	2,307,970	704,940	1,603,030	-
	3,550,723	\$ 1,892,650	\$ 1,658,073	\$ -
Mutual funds	37,127			
Total investments	<u>\$ 3,587,850</u>			
Fiduciary funds:				
Certificates of deposit	\$ 107,164	\$ 102,418	\$ 4,746	\$ -
U.S. government securities	306,888	60,788	246,100	-
Derivatives	(148)	-	(148)	-
	413,904	\$ 163,206	\$ 250,698	\$ -
Equity securities	413,652			
Mutual funds	132,899			
Commingled funds	1,011,685			
Alternative investments	74,919			
Total investments	<u>\$ 2,047,059</u>			

Information relating to the State's investment pool by maturity period at June 30, 2018 will be included in the State's CAFR when issued.

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Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

Concentration of Credit Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The State's asset allocation and investment policy allows for active and passive investments in international securities. The foreign currency risk exposure to the State arises from the international equity investment holdings, including commingled funds, common stocks, and exchange traded funds.

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(5) Capital Assets

At June 30, 2018, capital assets consisted of the following:

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance at June 30, 2018</u>
Stadium structure	\$ 175,998,255	\$ 3,437	\$ -	\$ -	\$ 176,001,692
Equipment, furniture and fixtures	3,608,856	169,196	(56,107)	-	3,721,945
	<u>179,607,111</u>	<u>172,633</u>	<u>(56,107)</u>	<u>-</u>	<u>179,723,637</u>
Less accumulated depreciation for:					
Stadium structure	(113,076,818)	(3,648,397)	-	-	(116,725,215)
Equipment, furniture, and fixtures	<u>(3,079,645)</u>	<u>(181,950)</u>	<u>56,107</u>	<u>-</u>	<u>(3,205,488)</u>
Total accumulated depreciation	<u>(116,156,463)</u>	<u>(3,830,347)</u>	<u>56,107</u>	<u>-</u>	<u>(119,930,703)</u>
Total depreciable capital assets, net	63,450,648	(3,657,714)	-	-	59,792,934
Land and land improvements	11,518,621	-	-	-	11,518,621
Construction in progress	<u>10,442,742</u>	<u>5,395,080</u>	<u>-</u>	<u>-</u>	<u>15,837,822</u>
Total capital assets, net	<u>\$ 85,412,011</u>	<u>\$ 1,737,366</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,149,377</u>

Depreciation expense amounted to \$3,830,347 for the fiscal year ended June 30, 2018.

(6) Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which includes the Authority, 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.

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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. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

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 ten 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. Ten 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.

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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 the time of death with at least ten 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 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. General employees with five years of credited service are eligible to retire at age 55.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

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. Ten 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.

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Death Benefits

For service-connected deaths, the 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 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 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 ten 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 ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

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. Ten 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.

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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. Ten 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 ten 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.

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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 ten 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 ten 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 ten 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 2018 were 28.0% for police officers and firefighters, and 18.0% for all other employees. Contributions to the ERS from the Authority were \$378,904 for the fiscal 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 beginning July 1, 2017. The rate for police and firefighters increases to 31.0% on July 1, 2018; 36.0% on July 1, 2019; and 41.0% on July 1, 2020, and the rate for all other employees increases to 19.0% on July 1, 2018; 22.0% on July 1, 2019; and 24.0% on July 1, 2020.

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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

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Authority. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by Statement Nos. 68 and 71 pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's CAFR.

At June 30, 2018, the Authority reported a net pension liability of \$5,909,158 for its proportionate share of the State's net pension liability. The 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.

At June 30, 2018, the Stadium's proportionate share of the State's net pension liability was .09%, which was equal to its proportionate share as of June 30, 2017.

There was no change in actuarial assumptions from 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 Authority's proportionate share of the net pension liability.

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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 pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 378,904	\$ -
Changes in assumptions	897,185	-
Differences between expected and actual experience	97,544	(62,410)
Changes in proportion and differences between contributions and proportionate share of contributions	25,528	(13,810)
Net difference between projected and actual earnings on pension plan investments	-	(17,412)
Total	<u>\$ 1,399,161</u>	<u>\$ (93,632)</u>

The \$378,904 reported as deferred outflows of resources related to pension at June 30, 2018 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 ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at June 30, 2018 will be recognized in pension expense as follows:

Year Ended June 30:

2019	\$ 213,124
2020	315,053
2021	268,721
2022	120,461
2023	9,266
	<u>\$ 926,625</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

There were no changes to ad hoc postemployment benefits including cost of living allowance.

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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.

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 a 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 geometric 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	63.00%	5.80%
Principal protection	7.00%	0.20%
Real return	10.00%	3.60%
Crisis risk offset	20.00%	3.10%
	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, which includes the Authority, 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.

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

The following presents the Authority's proportionate share of the State's net pension liability calculated using the discount rate of 7.00%, as well as what the Authority's proportionate share of the State's net pension 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 rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Authority's proportionate share of the State's net pension liability	\$ 7,660,080	\$ 5,909,158	\$ 4,465,434

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' complete financial statements are available at <http://www.ers.ehawaii.gov>.

Postemployment Health Care and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the 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 single delivery system of health benefits for state and county workers, retirees, and their dependents.

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For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten 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 ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For 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 ten years of service, the State makes no contributions. For those retiring with at least ten 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 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.

Members Covered by Benefit Terms

At July 1, 2017, the State's plan members covered by benefit terms consisted of the following:

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	<u>50,101</u>
Total plan members	<u><u>93,599</u></u>

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF from the Authority was \$426,680 for the fiscal year ended June 30, 2018. The Authority is required to make all contributions for members.

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

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Authority. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by Statement No. 75 pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's CAFR.

At June 30, 2018, the Authority reported a net OPEB liability of \$6,484,634. 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.

At June 30, 2018, the Authority's proportionate share of the State's net OPEB liability was 0.09%.

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 Authority's proportionate share of the State's net OPEB liability.

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$400,484. 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
Contributions subsequent to the measurement date	\$ 426,680	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	(7,930)
Total	\$ 426,680	\$ (7,930)

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The \$426,680 reported as deferred outflows of resources related to OPEB resulting from the Authority's contribution 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:

Year Ended June 30:

2019	\$ (1,983)
2020	(1,983)
2021	(1,983)
2022	<u>(1,981)</u>
	<u><u>\$ (7,930)</u></u>

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 EUTF, on January 8, 2018, based on the experience study covering the five year period ended June 30, 2015:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%

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.

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

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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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	19.00%	5.50%
International equity	19.00%	7.00%
U.S. microcap	7.00%	7.00%
Private equity	10.00%	9.25%
REITs	6.00%	5.85%
Core real estate	10.00%	3.80%
Global options	7.00%	5.50%
Core bonds	3.00%	0.55%
Long treasuries	7.00%	1.90%
Trend following	7.00%	1.75%
TIPS	5.00%	0.50%
	100.00%	

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.

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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. Benefits 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>.

Changes in the Authority's Proportionate Share of the State's Net OPEB Liability

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

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 6,744,045	\$ 336,440	\$ 6,407,605
Service cost	105,687	-	105,687
Interest on the total OPEB liability	320,913	-	320,913
Employer contributions	-	315,524	(315,524)
Net investment income	-	31,591	(31,591)
Benefit payments	(158,665)	(158,665)	-
Administrative expense	-	(81)	81
Other	-	2,537	(2,537)
Net Changes	267,935	190,906	77,029
Ending balance	<u>\$ 7,011,980</u>	<u>\$ 527,346</u>	<u>\$ 6,484,634</u>

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Sensitivity of the Authority's Proportionate Share of the State's Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table represents the Authority's proportionate share of the State'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 (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Authority's proportionate share of the State's net OPEB liability	\$ 7,610,902	\$ 6,484,634	\$ 5,573,250

The following table represents the Authority's proportionate share of the State'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	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of the State's net OPEB liability	\$ 5,520,773	\$ 6,484,634	\$ 7,701,136

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The plan, which is available to all State employees (excluding part-time, temporary, and casual/seasonal), permits employees to defer a portion of their compensation 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 State's or the Authority's financial statements.

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Accrued Vacation

Vacation pay earned by employees are accumulated at the rate of one and three-quarter working days for each month of service up to 720 hours at calendar year-end. The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2018:

Balance at June 30, 2017	\$ 482,073
Additions	188,278
Deletions	<u>(166,172)</u>
Balance at June 30, 2018	504,179
Less current portion	<u>(186,312)</u>
Noncurrent portion	<u><u>\$ 317,867</u></u>

Accrued Sick Leave

Full-time employees are credited with sick leave at a rate of one and three-quarter days per month of service. Unused sick leave may be accumulated without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave at June 30, 2018 amounted to approximately \$1,619,000.

(7) Stadium Special Account

Contracts with licensees of the Authority and the related ticket sales are controlled in the Stadium Special Account. This account's cash balance and liabilities to third parties, net of amounts owed to the Authority, are included in the accompanying statement of net position and amounted to \$1,040,152 at June 30, 2018. The activity in the account is included in the accompanying statement of revenues, expenses, and change in net position only as it relates to the Authority's rentals from attractions, expense reimbursements from users, and other miscellaneous transactions (i.e., excludes ticket sales proceeds held on behalf of the licensees).

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(8) Advertising Agreement

Under terms of an advertising agreement, the Authority received sponsorship fees subject to external restrictions on how they may be used. The sponsorship fees must be used for the maintenance and replacement of the field and for travel subsidies for the University of Hawaii athletics program, as defined in the advertising agreement. The advertising agreement expired in December 2015. Upon the termination of the agreement, \$1,350,000 was transferred to the Public Works Division and \$150,000 was disbursed to the University of Hawaii athletics program for travel subsidies. Unspent sponsorship fees aggregated to \$92,441 as of June 30, 2018, and are included in cash and cash equivalents, and are considered restricted net position in the accompanying statement of net position.

(9) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State purchases policies that provide coverage for all state entities, including the Authority. The State generally retains the first \$1,000,000 per occurrence of property losses, the first \$4,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime and cyber liability. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$200,000,000, except for terrorism, which is \$50,000,000 per occurrence. The annual aggregate limit for general liability losses is \$9,000,000 per occurrence, \$50,000,000 for cyber liability losses and for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State, including the Authority, is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs of investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The Authority believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed and, as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

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(10) Commitments and Contingencies

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

(11) Special Fund Assessments

In accordance with the HRS, the Authority has been assessed amounts to support the State's central administrative services. The assessments are based upon a percentage of the Authority's estimated revenues and expenses for the fiscal year. Assessments amounted to \$454,022 for the fiscal year ended June 30, 2018.

(12) Subsequent Events

The Authority has evaluated subsequent events from the statement of net position date through December 3, 2018, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

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

The Auditor
State of Hawaii:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated December 3, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KKDL LLC

Honolulu, Hawaii
December 3, 2018