KPMG

HAWAII TOURISM AUTHORITY

(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2015

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

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

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Independent Auditors' Report

The Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hawaii Tourism Authority, a component unit of the State of Hawaii (the Authority), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hawaii Tourism Authority as of June 30, 2015, and the respective changes in its financial position and the respective budgetary comparisons thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1 to the financial statements, the financial statements of the Authority are intended to present the financial position and the changes in financial position of only that portion of the component units of the State of Hawaii that 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, 2015, the changes in its financial position, for the year ended, in conformity with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

As discussed in note 1 to the financial statements, the Authority adopted Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Application of these statements was effective as of July 1, 2014.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Honolulu, Hawaii
December 28, 2015

The Hawaii Tourism Authority (the Authority) was established on January 1, 1999 by Act 156, Session Laws of Hawaii 1998. The Authority is responsible for developing and implementing a strategic tourism marketing plan to enhance and promote the tourism industry in the State of Hawaii. As management of the Authority, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2015. This discussion and analysis is designed to assist the reader in focusing on the Authority's significant financial issues and activities and to identify any significant changes in the Authority's financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities of the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation on pages 12 and 13 to facilitate this comparison between governmental funds and governmental activities.

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

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

Notes to Basic Financial Statements

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

Condensed Financial Information

The following are summaries from the Authority's government-wide financial statements as of and for the years ended June 30, 2015 and 2014 (in thousands):

Condensed Statements of Net Position

June 30, 2015 and 2014

		2015	2014 As restated
Assets:			
Current assets	$	71,875	46,719
Capital assets		216,668	223,615
Investments – noncurrent		16,530	18,727
Other assets		10,559	10,756
Total assets	$	315,632	299,817
Deferred outflows of resources	$	554	436
Liabilities:			
Current liabilities	$	40,192	25,424
Other noncurrent liabilities		239,310	254,410
Total liabilities	$	279,502	279,834
Deferred inflows of resources	$	493	—
Net position:			
Invested in capital assets, net of related debt	$	9,462	2,489
Restricted		26,729	17,930
Total net position	$	36,191	20,419

Condensed Statements of Activities

Years ended June 30, 2015 and 2014

	2015	2014
Expenses:		
Hawaii Convention Center management:		
Contract	$ 15,937	14,055
Interest on debt obligation to State Department of Budget and Finance	12,089	12,900
Depreciation	7,265	7,274
Payroll	386	426
General and administrative	203	203
Pension	48	44
Other	—	75
	35,928	34,977
Tourism and marketing:		
Contract	66,746	63,810
Payroll	2,491	2,508
General and administrative	568	541
Pension	427	393
Other	28	62
	70,260	67,314
Total expenses	106,188	102,291
Revenues:		
Program:		
Charges for services	6,367	8,205
General:		
Transient accommodations tax	115,000	115,000
Other	393	593
Total revenues	121,760	123,798
Transfers	200	190
Change in net position	$ 15,772	21,697

Financial Analysis

Current Assets increased by $25.2 million, or 54%, primarily due to an increase in cash of $24.5 million. Cash is primarily available for current contracts.

Capital Assets decreased by $6.9 million, or 3%, due to the recording of current year depreciation expense of $7.3 million offset by current year capital asset additions of $0.3 million. A substantial portion of the Authority's capital asset additions pertains to renovations and improvements to the Hawaii Convention Center (the Center). See note 5 to the financial statements.

Other Assets decreased by $0.2 million, or 2%. This represents unspent funds held by AEG and the Department of Accounting and General Services (DAGS) for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects for the Center.

Investments decreased by $2.2 million, or 12%, due to the maturity of investments with longer maturity lives.

Current Liabilities increased by $14.8 million, or 58%, primarily due to an increase in vouchers payable of $4.4 million resulting from the timing of cost incurrence and payments and an increase in amounts due to the State Department of Budget and Finance (Budget and Finance) of $10.3 million. Amounts due to Budget and Finance pertain to current year reimbursements due to Budget and Finance for debt service payments made on general obligation bonds whose proceeds were used to fund the construction of the Center.

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

Net position went from a net position of $20.4 million at June 30, 2014 to a net position of $36.2 million at June 30, 2015.

Effective July 1, 2014, the Authority implemented the provisions of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014. Statement No. 68 establishes new standards for accounting for pensions by employers whose employees are provided with pensions through pension plans administered through trusts, or equivalent arrangements, that meet the characteristics defined in the Statements and addresses accounting and financial reporting issues of certain nonemployer entities that contribute to such plans.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68. The Authority implemented the provisions of GASB Statement No. 71 effective July 1, 2014.

The requirements of GASB Statements No. 68 and 71 caused the Authority to restate prior year net position by the amount of the net pension liability and deferred outflows of resources related to pension contributions as of June 30, 2014. The following table provides a reconciliation of net position at June 30, 2014, as previously reported, to net position at June 30, 2014, as restated (in thousands):

Net position at June 30, 2014, as previously reported	$	24,616
Addition of net pension liability		(4,634)
Addition of deferred outflows of resources related to pension contributions		437
Net position at June 30, 2014, as restated	$	20,419

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

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

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

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

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

There is no dispute that from June 30, 2000 and July 1, 2002 the TAT receipts intended for debt service, which prior to July 1, 2000 was allocated to the Convention Center Authority (Chapter 206X, HRS), and subsequent to June 30, 2002 to the Authority (pursuant to HRS Section 237D), were being collected and received by the General

Fund. During this period, debt services to bondholders were made. What was being disputed was whether the Authority was obligated to reimburse Budget and Finance for the debt service payments made during the period from July 1, 2000 to June 30, 2002.

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

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

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

Revenues decreased by $2.0 million, or 2%, primarily due to food and beverage revenues related to events at the Hawaii Convention Center being remitted to the Authority net of expenses for the entire current fiscal year. In the prior fiscal year, food and beverage revenues were remitted to the Authority on a gross basis for part of the year and on a net basis the rest of the year. The change was a result of the Hawaii Convention Center utilizing a third party to handle food and beverage operations.

Expenses increased by $3.9 million, or 4%, primarily due to an increase in contract expenses in the current year as compared to the prior fiscal year.

Financial Analysis of the Authority's Individual Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of $68.9 million, an increase of $8.6 million in comparison with the prior fiscal year. The Authority's entire fund balance is committed to indicate that it can only be used for specific purposes pursuant to formal action of the Legislature.

The Tourism Special Fund is used to account for functions related to the development and promotion of the tourism industry. At the end of the current fiscal year, committed fund balance of the Tourism Special Fund was $61.2 million, an increase of 36% from the prior fiscal year. As a measure of the Tourism Special Fund's liquidity, it may be useful to compare committed fund balance to total fund expenditures. Committed fund balance represents 87% of total Tourism Special Fund's expenditures, an increase of 20% from the prior fiscal year.

The Convention Center Enterprise Special Fund was established by Act 253, Session Laws of Hawaii 2002 (Act 253) to receive all revenues generated from the operation of the Hawaii Convention Center and an allocated portion of the revenues received from the State of Hawaii's transient accommodations tax. Funds collected by the Convention Center Enterprise Special Fund are used to pay all expenses arising from the use and operation of the Hawaii Convention Center and to reimburse the State Department of Budget and Finance for debt service payments on general obligation bonds issued for construction of the Hawaii Convention Center. In accordance with Act 253, the operations of the Convention Center Enterprise Special Fund are included in the Authority's financial statements. At the end of the current fiscal year, the Convention Center Enterprise Special Fund had a committed fund balance of $7.7 million.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2015, the Authority had $216.7 million invested in capital assets as shown in the following table. There was a net decrease (additions, deductions, and depreciation) of $6.9 million from the end of the prior fiscal year.

	(In thousands) 2015	2014
Land	$ 131,497	131,497
Buildings and improvements	211,125	211,125
Furniture, fixtures, and equipment	4,860	4,746
Construction in progress	2,525	2,383
	350,007	349,751
Accumulated depreciation	133,339	126,136
Total	$ 216,668	223,615

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

Indebtedness

As of June 30, 2015, the Authority had $263.1 million of amounts due to the State Department of Budget and Finance compared to $267.6 million as of June 30, 2014, which represents a decrease of 2% from prior year. Additional information regarding the Authority's indebtedness can be found in note 8 to the financial statements.

Economic Factors and Current Known Facts

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

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

Statement of Net Position

June 30, 2015

Assets and Deferred Outflows of Resources

Current assets:		
Cash	$	70,533,109
Due from Hawaii Convention Center		1,305,271
Other current assets		36,828
Total current assets		71,875,208
Capital assets:		
Land		131,496,508
Construction in progress		2,524,725
Other capital assets, net		82,646,484
		216,667,717
Investments		16,530,230
Other assets		10,558,674
Total noncurrent assets		243,756,621
Total assets		315,631,829
Deferred outflows of resources related to pensions:		
Difference between expected and actual experience		53,125
Changes in proportion and differences between contributions and proportionate share of contributions		7,648
Contributions subsequent to the measurement date		493,630
Total deferred outflows of resources related to pensions		554,403
Total assets and deferred outflows of resources	$	316,186,232

Liabilities and Deferred Inflows of Resources

Current liabilities:		
Vouchers payable	$	9,418,220
Due to State Department of Budget and Finance		30,516,577
Accrued wages		131,183
Accrued vacation		126,135
Total current liabilities		40,192,115
Accrued vacation		291,437
Postemployment liability		2,153,992
Net pension liability		4,238,994
Due to State Department of Budget and Finance, net of current portion		232,625,724
Total liabilities		279,502,262
Deferred inflows of resources related to pensions:		
Difference between projected and actual investment earnings		491,773
Difference between expected and actual experience		1,198
Total deferred inflows of resources related to pensions		492,971
Total liabilities and deferred inflows of resources	$	279,995,233
Commitments and contingencies		

Net Position

Net position:		
Net investment in capital assets	$	9,462,428
Restricted		26,728,571
Total net position	$	36,190,999

See accompanying notes to financial statements.

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

Statement of Activities

Year ended June 30, 2015

		Functional programs		
		Hawaii Convention Center management	**Tourism and marketing**	**Total**
Expenses:				
Contract expenses	$	15,937,312	66,745,718	82,683,030
Interest on debt obligation to State Department of Budget and Finance		12,088,518	—	12,088,518
Depreciation		7,265,187	—	7,265,187
Payroll		386,072	2,491,470	2,877,542
Pension		47,474	427,263	474,737
General and administrative		203,273	567,707	770,980
Other		—	28,515	28,515
Total expenses		35,927,836	70,260,673	106,188,509
Program revenues – charges for services		6,367,309	—	6,367,309
Net expenses	$	29,560,527	70,260,673	99,821,200
General revenues:				
Transient accommodations tax				115,000,000
Interest				268,468
Net increase in the fair value of investments				121,600
Other				2,757
Total general revenues				115,392,825
Transfers from other state departments				200,000
Change in net position				15,771,625
Net position at July 1, 2014, as restated				20,419,374
Net position at June 30, 2015			$	36,190,999

See accompanying notes to financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2015

Assets		**Tourism Special Fund**	**Convention Center Enterprise Special Fund**	**Total Governmental Funds**
Cash in bank	$	52,296,241	18,236,868	70,533,109
Investments		14,529,310	2,000,920	16,530,230
Due from Hawaii Convention Center		—	1,305,271	1,305,271
Other assets		33,717	3,111	36,828
Total assets	$	66,859,268	21,546,170	88,405,438
Liabilities and Fund Balances				
Liabilities:				
Vouchers payable	$	9,408,220	10,000	9,418,220
Due to State Department of Budget and Finance		—	9,926,118	9,926,118
Accrued wages and employee benefits payable		115,604	15,579	131,183
Total liabilities		9,523,824	9,951,697	19,475,521
Fund balances:				
Committed		61,235,444	7,694,473	68,929,917
Total liabilities and fund balances	$	70,759,268	17,646,170	
Amounts reported in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds				216,667,717
Difference between accounting for amounts held by AEG and DAGS for future capital expenditures in the statement of net position and in the governmental funds				10,558,674
Long-term liabilities, including unmatured debt obligation to State Department of Budget and Finance, are not due and payable in the current period and, therefore, are not reported in the governmental funds				(207,205,289)
Accrued interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the governmental funds				(46,010,894)
Accrued vacation, postemployment liability, and net pension liability reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in the governmental funds				(6,810,558)
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported in governmental funds				61,432
Net position of governmental activities				$ 36,190,999

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY

(A Component Unit of the State of Hawaii)

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

Year ended June 30, 2015

	Tourism Special Fund	Convention Center Enterprise Special Fund	Total Governmental Funds
Revenues:			
Transient accommodations tax	$ 82,000,000	33,000,000	115,000,000
Hawaii Convention Center operations	—	6,367,309	6,367,309
Interest	205,848	62,620	268,468
Net increase in the fair value of investments	83,142	38,458	121,600
Other	2,757	—	2,757
Total revenues	82,291,747	39,468,387	121,760,134
Expenditures:			
Contract expenditures	66,745,718	16,057,999	82,803,717
Interest on debt obligation to State Department of Budget and Finance	—	26,426,118	26,426,118
Personnel	2,925,249	418,317	3,343,566
Administrative and general	567,707	203,273	770,980
Other	28,515	—	28,515
Total expenditures	70,267,189	43,105,707	113,372,896
Excess (deficiency) of revenues over expenditures	12,024,558	(3,637,320)	8,387,238
Other financing sources (uses):			
Transfers in (out)	3,900,000	(3,900,000)	—
Transfers from other state departments	200,000	—	200,000
Total other financing sources (uses)	4,100,000	(3,900,000)	200,000
Excess of revenues over expenditures and other financing sources (uses)	16,124,558	(7,537,320)	8,587,238
Fund balances at July 1, 2014	45,110,886	15,231,793	
Fund balances at June 30, 2015	$ 61,235,444	7,694,473	
Amounts reported in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital expenditures for the year			(6,946,920)
Difference between accounting for cash paid to SMG, AEG and DAGS for future capital expenditures in the statement of activities and in the governmental funds			(197,580)
Repayment of debt obligation principal is an expenditure in the government funds, but the payment reduces long-term liabilities in the statement of net position			13,920,000
Difference between accounting for interest expense in the statement of activities and in the governmental funds			417,600
Accrued vacation, postemployment liability and net pension liability reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds			(8,713)
Change in net position			$ 15,771,625

See accompanying notes to financial statements.

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

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

Year ended June 30, 2015

		Tourism Special Fund				Convention Center Enterprise Special Fund			
		Original budget	**Final budget**	**Actual (budgetary basis)**	**Variance favorable (unfavorable)**	**Original budget**	**Final budget**	**Actual (budgetary basis)**	**Variance favorable (unfavorable)**
Revenues:									
Transient accommodations tax	$	87,152,066	87,234,478	82,000,000	(5,234,478)	26,500,000	26,500,000	33,000,000	6,500,000
Hawaii Convention Center operations		—	—	—	—	24,010,232	24,020,809	6,760,503	(17,260,306)
Interest		—	—	138,197	138,197	—	—	36,073	36,073
Other		—	—	29,448	29,448	—	—	—	—
Total revenues		87,152,066	87,234,478	82,167,645	(5,066,833)	50,510,232	50,520,809	39,796,576	(10,724,233)
Expenditures		87,152,066	87,234,478	77,016,232	10,218,246	54,010,232	54,020,809	48,174,183	5,846,626
Excess (deficiency) of revenues over expenditures		—	—	5,151,413	5,151,413	(3,500,000)	(3,500,000)	(8,377,607)	(4,877,607)
Other financing sources		—	—	200,000	200,000	3,500,000	3,500,000	—	(3,500,000)
Excess of revenues over expenditures and other financing sources (uses)	$	—	—	5,351,413	5,351,413	—	—	(8,377,607)	(8,377,607)

See accompanying notes to financial statements.

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

Statement of Fiduciary Net Position – Fiduciary Fund

June 30, 2015

		Trust fund
Assets:		
Cash	$	2,894,929
Investments		2,105,071
Liabilities:		
Deposits payable		5,000,000
Net position	$	—

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

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

(a) The Financial Reporting Entity

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

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

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

(b) Government-Wide and Fund Accounting

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

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

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

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

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

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

The government-wide statement of net position as of June 30, 2015 reports restricted net position of $26,728,571, which is restricted by enabling legislation.

Governmental Funds

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

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

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

Fiduciary Fund

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

(c) Basis of Accounting

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

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

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

(d) Transient Accommodations Tax

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

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

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

Effective July 1, 2013, of the total TAT revenues deposited into the Tourism Fund, $1,000,000 shall be allocated for the operation of a Hawaiian center and the museum of Hawaiian music and dance at the Center.

On May 19, 2014, Act 81, Session Laws of Hawaii 2014 was signed into law and authorized the Authority to issue $40,000,000 in revenue bonds to acquire a conservation easement in Turtle Bay. Act 81 allocated TAT of $3,000,000 annually to HTA to pay the debt service on those bonds. Deposit and debt service payments were to be made through the Turtle Bay Conservation Easement Special Fund, also established under Act 81, under the purview of the Authority. Act 81 reduces the TAT allocation to the Convention Center Enterprise Special Fund from $33,000,000 to $26,500,000. Act 121, Session Laws of Hawaii 2015 was signed into law and removed HTA from its involvement in the acquisition of the conservation easement.

(e) Investments

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

(f) Capital Assets

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

(g) Accrued Vacation

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

(h) Pensions

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

(i) Marketing Contractors

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

Hawaii Visitors and Convention Bureau – North America
a.Link LLC, DBA Hawaii Tourism Japan – Japan
Aviareps Tourism, DBA Hawaii Tourism Europe – Europe
iConnect, DBA Hawaii Tourism Korea – Korea
The Walshe Group, DBA Hawaii Tourism Oceania – Australia and New Zealand
Travel Link Co. Ltd. – China
JWI Marketing Co. Ltd. – Taiwan
Jicer Corporation S.A. – Latin America

(j) Center Contract

The Authority contracts with AEG, a private contractor, to manage and operate the Center. AEG is on a cost-reimbursement contract whereby it is reimbursed by the Authority for costs incurred in operating the Center. AEG also assumes responsibility for the Center's sales and marketing efforts. The Authority's contract with AEG extends through December 31, 2018, with a termination option which may be exercised by the Authority in its sole discretion effective as of December 31, 2016. The management fees for the year ended June 30, 2015 amounted to $244,800.

(k) Intrafund and Interfund Transactions

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

(l) Use of Estimates

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

(m) Recently Adopted Accounting Standards

Effective July 1, 2014, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* which is effective for periods beginning after June 15, 2014. Statement No. 68 establishes new standards for accounting for pensions by employers whose employees are provided with pensions through pension plans administered through trusts, or equivalent arrangements, that meet the characteristics defined in the Statements and addresses accounting and financial reporting issues of certain nonemployer entities that contribute to such plans.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities. The provisions of this Statement should be applied simultaneously with the provision of Statement No. 68. The Authority implemented the provisions of GASB Statement No. 71 effective July 1, 2014.

The requirements of GASB Statements No. 68 and 71 caused the Authority to restate prior year net position by the amount of the net pension liability and deferred outflows of resources related to pension contributions as of June 30, 2014. The following table provides a reconciliation of net position at June 30, 2014, as previously reported, to net position at June 30, 2014, as restated:

Net position at June 30, 2014, as previously reported	$	24,615,829
Addition of net pension liability		(4,633,322)
Addition of deferred outflows of resources related to pension contributions		436,867
Net position at June 30, 2014, as restated	$	20,419,374

(2) Budgeting and Budgetary Control

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

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

Budgetary control is maintained at the appropriation line item level as established in the appropriations act. The governor is authorized to transfer appropriations within a state agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Authority. During the fiscal year ended June 30, 2015, there were no expenditures in excess of appropriations at the legal level of budgetary control.

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

Budgets adopted by the State Legislature for the Tourism Fund and Convention Center Fund are presented in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) –Tourism Fund and Convention Center Fund. The Authority's annual budget is prepared on the modified-accrual basis of accounting with several differences, principally related to (1) encumbrance of purchase orders and contract obligations and (2) accrued expenditures.

(Continued)

A reconciliation of the budgetary to GAAP basis operating results of the Tourism Fund and Convention Center Fund for the fiscal year ended June 30, 2015 is as follows:

		Tourism Fund	Convention Center Fund
Excess of revenues over expenditures and other financing sources (uses) – budgetary basis	$	5,351,413	(8,377,607)
Reserved for encumbrances		42,995,454	15,994,162
Expenditures for liquidation of prior fiscal year encumbrances		(31,596,199)	(2,197,975)
Net accrued revenues and expenditures		(626,110)	(12,955,900)
Excess of revenues over expenditures and other financing sources (uses) – GAAP basis	$	16,124,558	(7,537,320)

(3) Cash

(a) Cash in Bank

The Authority requires that the financial institutions pledge collateral based on the daily available bank balances. All securities pledged as collateral are held by the Authority's fiscal agents in the name of the Authority. At June 30, 2015, the Authority's deposits with the financial institution totaled $73,428,038 ($70,533,109 for the Governmental Funds and $2,894,929 for the Fiduciary Fund) and had a corresponding bank balance of $74,566,796.

(b) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2015, the Authority's custodial risk resulting from uninsured and uncollateralized amounts totaled $14,771,455.

(4) Investments

At June 30, 2015, the Authority had the following investments:

				Maturity (in years)	
Investment type	**Fund**		**Fair value**	**Less than 1**	**1–5**
U.S. Federal agency notes	Tourism Fund	$	10,506,510	2,019,280	8,487,230
U.S. Treasury notes	Tourism Fund		4,022,800	2,023,120	1,999,680
U.S. Federal agency notes	Convention Center Fund		2,000,920	—	2,000,920
Total investments		$	16,530,230	4,042,400	12,487,830

At June 30, 2015, the Authority held the following investments in a fiduciary capacity:

Investment type		Fair value	Maturity (in years) Less than 1	1–5
U.S. Federal agency notes	$	2,105,071	800,568	1,304,503
Total investments	$	2,105,071	800,568	1,304,503

(a) Interest Rate Risk

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

(b) Credit risk

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

(c) Custodial Risk

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

(5) Capital Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2015:

	Balance at 2014	Additions	Deductions	Balance at June 30, 2015
Capital assets not being depreciated:				
Land	$ 131,496,508	—	—	131,496,508
Construction in progress	2,383,325	141,400	—	2,524,725
Total capital assets not being depreciated	133,879,833	141,400	—	134,021,233
Other capital assets:				
Buildings and improvements	211,125,125	—	—	211,125,125
Furniture, fixtures, and equipment	4,745,899	184,367	(70,304)	4,859,962
Total other capital assets	215,871,024	184,367	(70,304)	215,985,087
Total capital assets	349,750,857	325,767	(70,304)	350,006,320
Less accumulated depreciation for:				
Buildings and improvements	121,960,085	7,036,904	(10,500)	128,986,489
Furniture, fixtures, and equipment	4,176,135	228,283	(52,304)	4,352,114
Total accumulated depreciation	126,136,220	7,265,187	(62,804)	133,338,603
Total other capital assets, net	89,734,804	(7,080,820)	(7,500)	82,646,484
Total capital assets, net	$ 223,614,637	(6,939,420)	(7,500)	216,667,717

Depreciation expense charged to the Hawaii Convention Center management function amounted to $7,265,187 for the fiscal year ended June 30, 2015.

(6) Other Assets

Other assets represent unspent funds held by AEG and the Department of Accounting and General Services (DAGS) for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects. At June 30, 2015, unspent funds amounted to $10,558,674.

(7) Accrued Vacation

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2015:

Balance at June 30, 2014	$	555,498
Additions		178,310
Deletions		(316,236)
Balance at June 30, 2015		417,572
Less current portion		(126,135)
	$	291,437

(8) Due to State Department of Budget and Finance

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

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

The creation of the Convention Center Fund provided the Authority the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the Authority by the CCA. The terms of the payment plan require the Authority to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. The payment plan is not directly related to the actual debt service on the general obligation bonds issued to finance the Hawaii Convention Center. The Authority's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2015, the outstanding principal and aggregate interest amounts required to be reimbursed by the Authority

(Continued)

were $207,205,289 and $109,945,407, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows:

		Principal	Interest	Total
2016	$	14,755,000	11,670,917	26,425,917
2017		15,645,000	10,785,617	26,430,617
2018		16,580,000	9,846,917	26,426,917
2019		17,575,000	8,852,117	26,427,117
2020		18,630,000	7,797,617	26,427,617
2021–2025		111,330,289	20,816,787	132,147,076
2026–2030		12,690,000	40,175,435	52,865,435
	$	207,205,289	109,945,407	317,150,696

For the year ended June 30, 2015, the Authority was required to reimburse Budget and Finance $26,426,118 for principal and interest. For the year ended June 30, 2015, the Authority recorded $12,088,518 of interest expense on debt obligation to the Budget and Finance in the statement of activities. At June 30, 2015, the statement of net position reflected the total long-term liabilities of the Authority as follows:

Matured interest	$	9,926,118
Unmatured current interest		5,835,459
Unmatured current principal		14,755,000
Current portion		30,516,577
Unmatured current principal		192,450,289
Unmatured current interest		40,175,435
Noncurrent portion		232,625,724
Total	$	263,142,301

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

July 1, 2014	$	267,553,783
Additions		12,088,518
Reductions		(16,500,000)
June 30, 2015	$	263,142,301

(9) Employee Benefits

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

All eligible employees of the Authority are required by Chapter 88, HRS, to become members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor, and disability benefits with multiple benefit structures known as contributory, hybrid, and noncontributory. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of becoming noncontributory members or remain contributory members. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to become noncontributory members. Qualified contributory and noncontributory members were given the option of becoming hybrid members effective July 1, 2006, or remain in their existing class. Starting July 1, 2006, all new employees covered by Social Security are required to become hybrid members.

Benefits Provided

The three benefit structures provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory members hired after June 30, 2012. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired after June 30, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance, the first year; 5.0%, the second year; 7.5%, the third year, etc.). For new members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

Contributions

The following summarizes the plan provisions relevant to the general employees of the respective classes:

Contributory

Employees in the contributory class are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Under the contributory class, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

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

Hybrid

Employees in the hybrid class are required to contribute 6% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2%.

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

Noncontributory

Employees in the noncontributory class are fully vested upon receiving 10 years of credited service. The Authority is required to make all contributions for these members. Employees may retire with full benefits at age 62 years and 10 years of credited service or age 55 and 30 years of credited services or age 55 years and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS' funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial-accrued liability. Employers contribute 15.75% for police officers and firefighters and 13.75% for all other employees. These rates increased, as of July 1, 2008, to 19.70% for police officers and firefighters and 15.00% for all other employees. The rates further increased, as of July 1, 2012 to 22.00% for police officers and firefighters, and 15.50% for all other employees. Each year thereafter the rates will gradually increase to 25.00% for police officers and firefighters, and 17.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS' actuary resulting from an experience study conducted every five years.

The required pension contributions by the Authority for the years ended June 30, 2015, 2014, and 2013 were $363,990, $323,000, and $251,000, respectively, which equal the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Authority.

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

The Authority's proportionate share of the State's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State allocates the net pension liability to the various departments and agencies based upon a systematic methodology. At June 30, 2015, the Authority's proportionate share of the net pension liability is $4,238,994. At June 30, 2014, the Authority's proportionate share of the State's proportion was 0.09% which was the same as its proportion measured as of June 30, 2013.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2015, the Authority recognized pension expense of $360,980. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	53,125	(1,198)
Net difference between projected and actual earnings on pension plan investments		—	(491,773)
Changes in proportion and differences between HTA contributions and proportionate share of contributions		7,648	—
HTA contributions subsequent to the measurement date		493,630	—
Total	$	554,403	(492,971)

The $493,630 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	$	(88,031)
2017		(88,031)
2018		(88,031)
2019		(88,031)
2020		(88,031)
Thereafter		7,957
	$	(432,198)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.50%
Investment rate of return, including inflation at 3.00%	7.75% per year

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA. Post-retirement mortality rates are based on Client Specific Tables and the 1994 US Group Annuity Mortality Statistic Tables for police and firefighters. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates their experience studies every five years.

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

Asset class	Strategic allocation	Long-term expected real rate of return
Domestic equity	30.00%	8.50%
International equity	26.0%	9.00
Total fixed income	20.0%	3.10
Real estate	7.0%	8.46
Private equity	7.0%	11.75
Real return	5.0%	6.41
Covered calls	5.0%	7.65
Total investments	100.00%	

Discount Rate

The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

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

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Discount rate (7.75%)	1% Decrease (8.75%)
HTA's proportionate share of the net pension liability	$ 5,351,373	4,238,994	3,088,228

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.

The ERS issues a comprehensive annual financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

The State issues a comprehensive annual financial report that includes the required footnote disclosures and the required supplementary information in accordance with the provisions of GASB Statement No. 68.

(b) Postemployment Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost sharing, multiple-employer defined-benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer health benefits plans and a group life insurance benefits program for employees and retirees.

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

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

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

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

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

For active employees, the employee's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the Authority. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contribution for the year ended June 30, 2015 was $225,098, which represented 58% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of $390,630.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2015:

Balance at June 30, 2014	$	1,988,460
Additions		390,630
Deletions		(225,098)
Balance at June 30, 2015	$	2,153,992

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 96805-2121

(10) Commitments and Contingencies

(a) Accumulated Sick Leave

Employees hired on or before July 1, 2001 earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn sick leave credit at the rate of one and one-quarter or one and three-quarters working days for each month of service depending upon the employees' years of service and job classification. Sick leave credits may accumulate without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2015, accumulated sick leave approximated $826,093 for the Authority.

(b) Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

(11) Subsequent Events

On July 7, 2015, Act 237 of the 2015 legislature reclassified the Tourism Emergency Trust Fund to a Special Fund.