

DEPT. COMM. NO. 336

March 8, 2017

HAND DELIVER

The Honorable Ronald Kouchi
Senate President
415 S. Beretania Street
State Capitol, Room 409
Honolulu, Hawaii 96813

Re: Audit of the Stadium Authority

Dear President Kouchi:

The financial audit report of the Stadium Authority for the fiscal year ending 2016 was issued on December 29, 2016. The Office of the Auditor retained KKDLY LLC to perform the financial audit. For your information, we are enclosing a copy of the two-page Auditor's Summary and the report.

The Auditor's Summary and report may be viewed electronically on our website at http://files.hawaii.gov/auditor/Reports/2016_Audit/Stadium2016_Summary_2016.pdf and http://files.hawaii.gov/auditor/Reports/2016_Audit/Stadium2016.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:lfS

Enclosures

Auditor's Summary

Financial Audit of the Stadium Authority

Financial Statements, Fiscal Year Ended June 30, 2016



***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Stadium Authority (Authority), as of and for the fiscal year ended June 30, 2016. The audit was conducted by KKDLY LLC.*

About the Authority

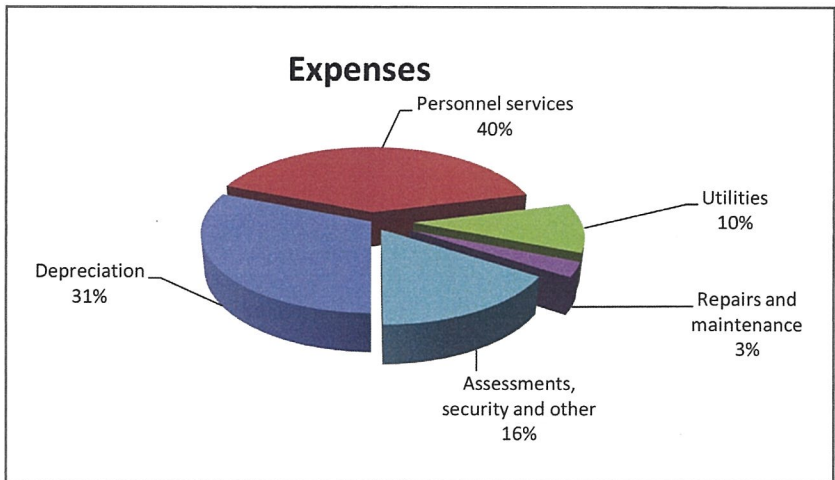
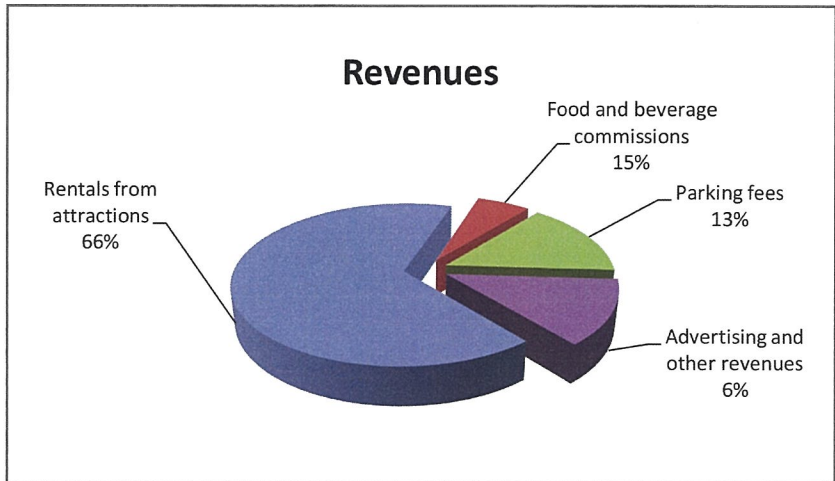
THE AUTHORITY was established in 1970 and is responsible for the operation, management and maintenance of Aloha Stadium, located in Honolulu, Hawai'i. The Authority functions under the direction of a nine-member board, appointed by the governor. In addition, the president of the University of Hawai'i and the superintendent of education are nonvoting ex-officio members of the board. For administrative purposes, the Authority is placed within the State Department of Accounting and General Services.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2016, the Authority reported total operating revenues of \$6.8 million and total operating expenses of \$10.7 million, resulting in an operating loss of \$3.9 million. Operating revenues primarily consisted of \$4.5 million from rentals from attractions and \$1 million from food and beverage concessionaire commissions. Other operating revenues included \$900,000 in parking fees and \$400,000 in advertising and other revenues. The Authority's operating loss was partially offset by \$6.9 million in capital contributions, which represents the portion of Aloha Stadium capital improvement costs that were paid by the State of Hawai'i.

Operating expenses consisted of \$3.3 million for depreciation, \$4.3 million for personnel services, \$1.1 million for utilities, and \$300,000 for repairs and maintenance. Additional expenses totaled \$1.7 million and included state central services assessments as well as security, professional services, and other costs.

As of June 30, 2016, assets totaled \$89.2 million and liabilities totaled \$8.8 million, resulting in a net position balance of \$80.4 million. Of this amount, \$83.3 million was for investment in capital assets, \$700,000 was restricted, and an unrestricted net deficit of \$3.6 million. Total assets were comprised of cash of \$4.7 million, receivables of \$1.2 million, and net capital assets of \$83.3 million. Total liabilities were comprised of net pension liability of \$4.3 million, vacation and other retirement of \$3.5 million and other liabilities of \$1 million.



Auditors' Opinion

THE AUTHORITY RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Findings

THERE WERE NO REPORTED DEFICIENCIES in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

ORIGINAL



DEPT. COMM. NO. 336

**Stadium Authority
State of Hawaii**

(A Component Unit of the State of Hawaii)

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

June 30, 2016

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, 2016

Table of Contents

	Page
I. Introduction Section	
Audit Objectives	1
Scope of Audit	1
Organization of Report	2
II. Financial Section	
Independent Auditors' Report	3
Management's Discussion and Analysis	5
Financial Statements:	
Statement of Net Position – June 30, 2016	9
Statement of Revenues, Expenses, and Changes in Net Position - Year Ended June 30, 2016	10
Statement of Cash Flows – Year Ended June 30, 2016	11
Notes to Financial Statements	12
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 <i>Government Auditing Standards</i>	35



SECTION I
INTRODUCTION SECTION

December 29, 2016

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, 2016. 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 laws, regulations, contracts, and grant agreements that may 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, 2016, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, 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 system of 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, 2016, 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,

KKDLY 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, 2016, 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 *Governmental 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, 2016, 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 Matter

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 cash flows thereof of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2016, and the changes in its financial position, and, where applicable, its cash flows thereof 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 29, 2016, 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 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 29, 2016

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

Management's Discussion and Analysis

June 30, 2016

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, 2016. 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.

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

Management's Discussion and Analysis

June 30, 2016

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, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Net Position:		
Assets:		
Current and other assets	\$ 5,325	\$ 6,260
Capital assets, net	83,305	79,205
Total assets	<u>88,630</u>	<u>85,465</u>
Deferred outflows of resources related to pension	547	431
Liabilities:		
Current liabilities	1,135	1,157
Noncurrent liabilities	7,379	6,826
Total liabilities	<u>8,514</u>	<u>7,983</u>
Deferred inflows of resources related to pension	273	438
Net position:		
Investment in capital assets	83,305	79,205
Restricted	717	1,320
Unrestricted	(3,632)	(3,050)
Total net position	<u>\$ 80,390</u>	<u>\$ 77,475</u>
Changes in Net Position:		
Operating revenues:		
Rentals from attractions	\$ 4,499	\$ 4,704
Commissions from food and beverage concessionaire	980	988
Parking	924	702
Other	375	806
Total operating revenues	<u>6,778</u>	<u>7,200</u>
Operating expenses:		
Personnel services	(4,340)	(4,545)
Depreciation	(3,333)	(4,865)
Other	(3,085)	(3,073)
Total operating expenses	<u>(10,758)</u>	<u>(12,483)</u>
Operating loss	(3,980)	(5,283)
Nonoperating revenues:		
Interest and investment income, net	26	20
Loss before capital contributions	(3,954)	(5,263)
Capital contributions	6,869	6,921
Change in net position	2,915	1,658
Net position at beginning of year	77,475	75,817
Net position at end of year	<u>\$ 80,390</u>	<u>\$ 77,475</u>

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

Management's Discussion and Analysis

June 30, 2016

Financial Analysis

Current and other assets decreased by \$935,000 or 14.9% from the previous fiscal year. The decrease is primarily due to the decrease in cash and cash equivalents of \$915,000. Sponsorship fees received under an advertising agreement were used for the replacement of the field and travel subsidies for the University of Hawaii.

Capital assets, net increased by \$4,100,000 or 5.2% from the previous fiscal year. The increase is primarily due to the net increase in construction in progress (CIP) of \$7,347,000, which was offset by the depreciation expense of the capital assets, which amounted to \$3,333,000. The Authority's investment in capital assets as of June 30, 2016 amounted to \$83,305,000 (net of accumulated depreciation of \$113,471,000). 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.

Deferred outflows of resources increased by \$116,000 from the previous period. *Deferred inflows of resources* decreased by \$165,000 from the previous year. The deferred outflows of resources related to pension are primarily attributable to contributions made subsequent to the measurement date of June 30, 2015. The deferred inflows of resources related to pension are primarily attributable to the net difference between projected and actual earnings on pension plan investments and the differences between the expected and actual experience.

Current liabilities decreased by \$22,000 or 1.9% from the previous fiscal year. Fluctuations in the current liabilities are due to normal business operations.

Noncurrent liabilities increased by \$553,000 or 8.1% 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 pension and postemployment liabilities of \$261,000 and \$328,000, respectively.

Net position increased by \$2,915,000 or 3.8% from the previous fiscal year. The increase is due primarily to current year's capital contributions of \$6,869,000, offset by current year's operating loss of \$3,980,000.

By far, the largest portion of the Authority's net position (\$83,305,000) 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 (\$717,000) represents restricted resources that are held by the Public Works Division to be used for the maintenance and replacement 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 \$3,632,000, due primarily to the recording of the Authority's allocated share of the State's pension obligation.

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

Management's Discussion and Analysis

June 30, 2016

Operating revenues decreased by \$422,000 or 5.9% from the previous fiscal year. The decrease was mainly due to a decrease in advertising and swap meet revenues of \$415,000 and \$238,000, respectively, offset by an increase in parking revenues of \$222,000.

Operating expenses decreased by \$1,725,000 or 13.8% from the previous fiscal year. The decrease was due primarily to a decrease in depreciation and personnel service expense of \$1,532,000 and \$205,000, respectively.

Capital contributions decreased by \$52,000 or 0.8% from the previous fiscal year. The decrease in capital contributions is primarily due to the slight 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/>.

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

Statement of Net Position

June 30, 2016

Assets:

Current assets:

Cash and cash equivalents - unrestricted (Notes 4 and 7):

 Amounts held in State Treasury

\$ 3,493,452

 Cash in bank and on hand

435,667

3,929,119

Receivables from concessionaire and other (Note 7)

679,048

 Total current assets

4,608,167

Capital assets, net (Note 5)

83,304,919

Cash and cash equivalents - restricted - held by other state agency (Note 8)

717,492

 Total assets

88,630,578

Deferred Outflows of Resources:

Deferred outflows related to pension (Note 6)

547,744

Liabilities:

Current liabilities:

 Vouchers payable

233,034

 Accrued payroll

247,872

 Workers compensation

200,767

 Accrued vacation – due within one year (Note 6)

170,313

 Due to State General Fund for advances for Imprest Fund

30,000

 Other (Note 7)

253,318

 Total current liabilities

1,135,304

Net pension liability (Note 6)

4,020,448

Postemployment liability (Note 6)

3,027,936

Accrued vacation – due in more than one year (Note 6)

258,835

Licensees' deposits (Note 7)

71,970

 Total liabilities

8,514,493

Deferred Inflows of Resources:

Deferred inflows related to pension (Note 6)

273,221

Net Position:

Investment in capital assets

83,304,919

Restricted (Note 8)

717,492

Unrestricted

(3,631,803)

 Total net position

\$ 80,390,608

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2016

Operating revenues:	
Rentals from attractions	\$ 4,499,379
Commissions from food and beverage concessionaire	980,207
Parking	923,968
Advertising (Note 8)	305,032
Other	69,556
	6,778,142
Operating expenses:	
Personnel services (Note 6)	4,339,763
Depreciation (Note 5)	3,332,842
Utilities	1,024,630
Special fund assessments (Note 10)	441,249
Professional services	397,750
Security	362,638
Repairs and maintenance	341,015
Other	518,239
	10,758,126
Operating loss	(3,979,984)
Nonoperating revenues:	
Interest and investment income (Note 4)	25,951
Loss before capital contributions	(3,954,033)
Capital contributions	6,869,310
Change in net position	2,915,277
Net position at beginning of year	77,475,331
Net position at end of year	\$ 80,390,608

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from customers	\$ 6,798,497
Cash paid to suppliers	(2,946,164)
Cash paid to employees	(4,229,127)
Net cash used in operating activities	<u>(376,794)</u>
Cash flows from investing activities:	
Acquisition of capital assets	(563,760)
Interest and investment income	25,951
Net cash used in investing activities	<u>(537,809)</u>
Net decrease in cash and cash equivalents	(914,603)
Cash and cash equivalents at beginning of year	<u>5,561,214</u>
Cash and cash equivalents at end of year (including \$717,492 held by other state agency)	<u>\$ 4,646,611</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (3,979,984)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	3,332,842
Increase in receivables from concessionaires and other	20,355
Change in deferred outflows, liabilities, and deferred inflows:	
Deferred outflows of resources	(116,895)
Vouchers payable	(7,942)
Accrued payroll	(70,394)
Workers compensation	(62,706)
Accrued vacation	(63,013)
Net pension liability	260,595
Postemployment liability	328,024
Licensees' deposits	15,299
Other	132,000
Deferred inflows of resources	(164,975)
Net cash used in operating activities	<u>\$ (376,794)</u>
Supplemental disclosure of noncash capital and related financing activity:	
Capital assets contributed	<u>\$ 6,869,310</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2016

(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 State of Hawaii, Department of Budget and Finance (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 accounting policies of the Authority used in the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB) through its statements and interpretations. 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.

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

Notes to Financial Statements

June 30, 2016

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, cash on hand, and amounts held by other state agency.

Amounts Held in State Treasury

The State's investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP. Investments in U.S. government obligations are reported at fair value based on quoted prices or other observable inputs, including pricing matrices. Investments in certificates of deposit and repurchase agreements are reported at fair value using cost-based measures due to the nonparticipating nature of these securities.

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. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation has been provided for the stadium structure and equipment, furniture, and fixtures 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

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

Notes to Financial Statements

June 30, 2016

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/Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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 held in a separate administrative trust account or held by other state agency 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 in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, in the previous year (see note 6).

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

Notes to Financial Statements

June 30, 2016

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.

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's investments are reported at fair value.

Recently Issued Accounting Pronouncements

GASB Statement No. 72

The Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. The statement requires governments to measure certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The statement also enhances fair value application guidance and disclosure. This statement did not have a material effect on the Authority's financial statements.

GASB Statement No. 75

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will become effective for financial statements for the fiscal years beginning after June 15, 2017. This statement addresses accounting and financial reporting for OPEB plans 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.

This statement replaces the requirements of GASB Statement No. 45 (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*, for OPEB. The Authority is currently evaluating the impact that this statement will have on its financial statements.

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

Notes to Financial Statements

June 30, 2016

GASB Statement No. 76

The Authority adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective July 1, 2015. The statement supersedes GASB No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement reduces GAAP to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement did not have a material effect on the Authority's financial statements.

GASB Statement No. 82

The GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. 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.

(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.

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

Notes to Financial Statements

June 30, 2016

(4) Cash and Cash Equivalents

Cash in Bank

At June 30, 2016, the carrying value of the Authority's cash in bank balance was \$422,920 and the bank balance was \$431,609.

Amounts Held in State Treasury

The State pools all excess funds into an investment pool that is administered by B&F and is used by various state departments and agencies, including the Authority. 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 are listed in the Hawaii Revised Statutes.

At June 30, 2016, amounts held in State Treasury by the Authority totaled \$3,493,452. 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.

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.

The Employer-Union Benefits Trust Fund of the State of Hawaii maintains an investment pool that is held separately from the State investment pool. Accordingly, those investments are not presented in the accompanying State investment pool disclosures.

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

Notes to Financial Statements

June 30, 2016

The following table presents the fair value of the investments included in the State's investment pool at June 30, 2016 (amounts expressed in thousands):

	June 30, 2016			
	Reported Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government:				
Investments measured by fair value level:				
U.S. government securities	\$ 2,079,266	\$ 948,149	\$ 1,131,117	\$ -
Investments measured at amortized cost:				
Certificates of deposit	861,410			
Repurchase agreements	29,704			
Total investments	<u>\$ 2,970,380</u>			
Fiduciary funds:				
Investments measured by fair value level:				
U.S. government securities	\$ 157,539	\$ 71,838	\$ 85,701	\$ -
Investments measured at amortized cost:				
Certificates of deposit	65,266			
Repurchase agreements	2,250			
Total investments	<u>\$ 225,055</u>			

Investments in U.S. government securities consist of U.S. treasury bills and U.S. treasury notes and bonds, and are valued based on quoted prices in active markets or other observable inputs, including pricing matrices. Investments in certificates of deposit and repurchase agreements are valued at amortized cost.

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

Notes to Financial Statements

June 30, 2016

The following table presents the investments included in the State's investment pool by maturity period at June 30, 2016 (amounts expressed in thousands):

	Fair value	Maturity (in years)		
		Less than 1	1-5	>5
Primary government:				
U.S. government securities	\$ 2,079,266	\$ 997,545	\$ 1,073,773	\$ 7,948
Certificates of deposit	861,410	829,635	31,775	-
Repurchase agreements	29,704	29,704	-	-
Total investments	<u>\$ 2,970,380</u>	<u>\$ 1,856,884</u>	<u>\$ 1,105,548</u>	<u>\$ 7,948</u>
Fiduciary funds:				
U.S. government securities	\$ 157,539	\$ 75,581	\$ 81,356	\$ 602
Certificates of deposit	65,266	62,859	2,407	-
Repurchase agreements	2,250	2,250	-	-
Total investments	<u>\$ 225,055</u>	<u>\$ 140,690</u>	<u>\$ 83,763</u>	<u>\$ 602</u>

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 investment policy limits its investments to 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.

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

Notes to Financial Statements

June 30, 2016

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.

(5) Capital Assets

At June 30, 2016, capital assets consisted of the following:

	Balance at June 30, 2015	Additions	Deductions	Transfers	Balance at June 30, 2016
Stadium structure	\$ 163,890,066	\$ -	\$ -	\$ -	\$ 163,890,066
Equipment, furniture and fixtures	3,558,768	86,029	(49,779)	-	3,595,018
	<u>167,448,834</u>	<u>86,029</u>	<u>(49,779)</u>	<u>-</u>	<u>167,485,084</u>
Less accumulated depreciation for:					
Stadium structure	(107,340,860)	(3,171,695)	-	-	(110,512,555)
Equipment, furniture, and fixtures	(2,847,003)	(161,147)	49,779	-	(2,958,371)
Total accumulated depreciation	<u>(110,187,863)</u>	<u>(3,332,842)</u>	<u>49,779</u>	<u>-</u>	<u>(113,470,926)</u>
Total depreciable capital assets, net	57,260,971	(3,246,813)	-	-	54,014,158
Land and land improvements	11,518,621	-	-	-	11,518,621
Construction in progress	10,425,099	7,449,210	(102,169)	-	17,772,140
Total capital assets, net	<u>\$ 79,204,691</u>	<u>\$ 4,202,397</u>	<u>\$ (102,169)</u>	<u>\$ -</u>	<u>\$ 83,304,919</u>

Depreciation expense amounted to \$3,332,842 for the fiscal year ended June 30, 2016.

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

Notes to Financial Statements

June 30, 2016

(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.

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 employees 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.

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

Notes to Financial Statements

June 30, 2016

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.

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.

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

Notes to Financial Statements

June 30, 2016

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.

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.

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

Notes to Financial Statements

June 30, 2016

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 any age, 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 3.0% of average final compensation for each year of service for judges and elected officers and 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.

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

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

Notes to Financial Statements

June 30, 2016

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.

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 established 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 2016 were 25.0% for police officers, and firefighters and 17.0% for all other employees. Contributions to the ERS from the Authority were \$340,386 for the fiscal year ended June 30, 2016.

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

Notes to Financial Statements

June 30, 2016

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 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 Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

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, 2016, the Authority reported a net pension liability of \$4,020,448 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The Authority's proportionate share of the State's net pension liability was based on a projection of the Authority's share of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015, the State's proportion was 57.24%, which was an increase of 1.24% from its proportion measured as of June 30, 2014. The Authority's share of the State's net pension liability at June 30, 2016 was .08%.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65% and will continue to decrease to 7.55% in fiscal year 2017 and to 7.50% in fiscal year 2018, and will remain at 7.50% thereafter. There were no other changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the Authority's proportionate share of the State's net pension liability.

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

Notes to Financial Statements

June 30, 2016

For the year ended June 30, 2016, the Authority recognized pension expense of \$326,505. At June 30, 2016, 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	\$ 409,204	\$ -
Changes in assumptions	94,627	-
Differences between expected and actual experience	38,541	(111,531)
Changes in proportion and differences between contributions and proportionate share of contributions	5,372	(24,817)
Net difference between projected and actual earnings on pension plan investments	-	(136,873)
Total	<u>\$ 547,744</u>	<u>\$ (273,221)</u>

The \$409,204 reported as deferred outflows of resources related to pension at June 30, 2016 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at June 30, 2016 will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ (59,023)
2018	(59,023)
2019	(59,023)
2020	46,846
2021	(4,458)
	<u>\$ (134,681)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015 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	7.65% compounded annually including inflation

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

Notes to Financial Statements

June 30, 2016

The investment rate of return changed from 7.75% used in the June 30, 2014 actuarial valuation to 7.65% used in the June 30, 2015 actuarial valuation.

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. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2015 valuation were based on the most recent experience study dated December 20, 2010. Between experience studies, the Board of Trustees of the ERS elected to lower the investment return assumption effective with the June 30, 2015 valuation.

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

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

Notes to Financial Statements

June 30, 2016

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
Total investments	<u>100.00%</u>	

* The real estate, private equity, and real return targets will be the percentage actually invested up to 7.0%, 7.0%, and 5.0%, respectively, of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the net pension liability was 7.65%, a decrease from the 7.75% 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.

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

Notes to Financial Statements

June 30, 2016

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 7.65%, 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 1-percentage point lower (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
Authority's proportionate share of the State's net pension liability	\$ 5,036,301	\$ 4,020,448	\$ 2,961,392

Pension Plan Fiduciary Net Position

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

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

Postemployment Health Care and Life Insurance Benefits

The State, pursuant to Act 88, SLH of 2001, is a participating employer in an agent, multiple-employer defined benefit plan providing certain health care and life insurance benefits to all qualified employees. The Employer-Union Health Benefits Trust Fund (the EUTF) was established on July 1, 2003 to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten or more years 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.

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

Notes to Financial Statements

June 30, 2016

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer 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 those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with fewer 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 those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage, but must pay the difference.

For active employees, the employer'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) 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 ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contributions for the year ended June 30, 2016 was \$231,242, which represented 41% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of \$559,266.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2016:

Balance at June 30, 2015	\$ 2,699,912
Annual required contribution	559,266
Contributions made	<u>(231,242)</u>
Balance at June 30, 2016	<u><u>\$ 3,027,936</u></u>

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

Notes to Financial Statements

June 30, 2016

On July 3, 2013, the Governor signed into law Act 268, Session Laws of Hawaii 2013. Act 268 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014.

Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties.

The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121, or through the EUTF's website: <http://eutf.hawaii.gov/>.

The State's CAFR includes the required footnote disclosures and required supplementary information in accordance with the provisions of Statement No. 45.

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, 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 accompanying financial statements.

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

Notes to Financial Statements

June 30, 2016

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, 2016:

Balance at June 30, 2015		\$	492,161
Additions			194,437
Deletions			<u>(257,450)</u>
Balance at June 30, 2016			429,148
Less current portion			<u>170,313</u>
Noncurrent portion		\$	<u><u>258,835</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, 2016 amounted to approximately \$1,567,000.

(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 \$405,667 at June 30, 2016. 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).

(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

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

Notes to Financial Statements

June 30, 2016

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 subsidy. Unspent sponsorship fees aggregated to \$717,492 as of June 30, 2016, and are presented as cash held by other state agency and restricted net position in the accompanying statement of net position.

(9) 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. The State is self-insured for substantially all perils, including workers' compensation.

(10) 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 \$441,249 for the fiscal year ended June 30, 2016.

(11) Subsequent Events

The Authority has evaluated subsequent events from the balance sheet date through December 29, 2016, 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, 2016, 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 29, 2016.

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 Y LLC

Honolulu, Hawaii
December 29, 2016

ORIGINAL



DEPT. COMM. NO. 336

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

Management Letter

June 30, 2016

Submitted by
THE AUDITOR
STATE OF HAWAII

December 29, 2016

The Auditor
State of Hawaii:

The Board of Directors
Stadium Authority
State of Hawaii:

In planning and performing 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, 2016, 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, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

However, during our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized below. This letter does not affect our report dated December 29, 2016, on the Authority's financial statements.

The Authority's responses to the findings identified in our audit are described below. We did not audit the Authority's responses, and accordingly, we express no opinion on them.

Parking Internal Controls

As part of our engagement, we examined the Authority's internal control over financial reporting for its parking revenue. The Authority has established policies and procedures to ensure the accuracy of cash collections of parking revenue, including policies requiring that two supervisors review and initial the counter reading sheet indicating that the beginning and ending parking meter counts are accurate. We selected 15 parking events during the year ended June 30, 2016, and noted that 13 out of the 40 counter reading sheets, which contain the official opening and closing readings for each gate, did not have the required initials of two supervisors indicating that they were reviewed and approved. However, as a compensating control, we noted that the Parking Counter Readings and Gate Recap report, which compares the meter readings and the actual tickets and cash collected, was signed and approved by the Parking Supervisor for each of the 15 parking events.

The Auditor
State of Hawaii

The Board of Directors
Stadium Authority
State of Hawaii
December 29, 2016
Page 2

During our examination of the selected 15 parking events during the year ended June 30, 2016, we also noted that 23 out of the 133 opened lanes did not have meter readings due to the fact that the parking meters at the main Salt Lake gate were inoperable. Accordingly, meter-reading counts were not taken for these 23 lanes. The reconciliation of parking revenue was based upon a comparison of the actual number of pre-numbered roll tickets distributed and the actual cash received for each of those opened lanes. The parking meters have been inoperable since November 2015.

Recommendation

We again recommend that the Authority adhere to established policies and procedures requiring that two gate supervisors initial every counter reading sheet to document the accuracy and approval of the beginning parking meter count and the ending parking meter count.

We also recommend that the Authority consider fixing or installing new parking meters at the main Salt Lake gate to facilitate established policies and procedures for parking meter counts to ensure the accuracy of cash collections of parking revenue.

Views of Responsible Officials and Planned Corrective Actions

In consideration of the increase in total sample size from prior year to current year, it should be noted that the percentage of errors to total sample size decreased from 38% in prior fiscal year to 17% in current fiscal year.

Management of the Authority (Management) will continue to monitor and dialogue with the Parking Supervisor and the Stadium Events Manager should any operational issues surface that may potentially hamper compliance.

Management also acknowledges that on October 28, 2016, the main Salt Lake gate parking meter counters were fixed and fully operational.

Physical Inventory Counts of Concession Operations

As part of our engagement, we observed the concession stand operations and performed physical inventory counts at four University of Hawaii football games and three swap meet events to assist the Authority in evaluating the food and beverage concession at Aloha Stadium by Centerplate, Inc. We again noted several instances where our beginning and ending physical inventory counts were different from Centerplate, Inc's inventory counts as reported in their event summary reports.

The Auditor
State of Hawaii

The Board of Directors
Stadium Authority
State of Hawaii
December 29, 2016
Page 3

Recommendation

We again recommend that Centerplate, Inc. improve its controls to ensure that beginning and ending inventory counts reported in the event summary reports are consistent with the physical inventory counts performed. Any discrepancies between the event summary reports and the physical counts performed should be investigated and resolved in a timely fashion.

Views of Responsible Officials and Planned Corrective Actions

Management has discussed the report's findings with Centerplate and acknowledges that Centerplate continues to review options that would minimize inventory discrepancies. In addition to providing training videos and training materials, Centerplate conducts a pre-event training session as well as an event day briefing with each non-profit organization (NPO) at its respective concession stand to ensure that each NPO and its workers understand their concession function(s) and the importance of accuracy in its inventory count.

Management will recommend that Centerplate review various options that will ensure NPOs are fully committed and engaged in pre-event and game-day training. Management will also recommend that Centerplate periodically review and update its training materials and videos utilized in their orientation and training sessions. Management will randomly check on Centerplate to ensure that training materials are being used in its training sessions.

This letter is intended solely for the information and use of the Auditor, State of Hawaii, and the board of directors and management of the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to express our sincere appreciation for the cooperation and assistance given to us by personnel of the Authority during the course of our audit. We would be pleased to discuss these comments and recommendations with you at your convenience.

Very truly yours,

KKDLY LLC



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

Internal Control Over Financial Reporting for Parking Revenue
(With Independent Accountants' Report Thereon)

June 30, 2016

Submitted by
THE AUDITOR
STATE OF HAWAII

Independent Accountants' Report

The Auditor
State of Hawaii:

We have examined the Stadium Authority, State of Hawaii's (the Authority), a component unit of the State of Hawaii, internal control over financial reporting for its parking revenue as of June 30, 2016, based upon established policies and procedures at the Aloha Stadium. The Authority's management is responsible for maintaining effective internal control over financial reporting for its parking revenue. Our responsibility is to express an opinion on the Authority's internal control over financial reporting for its parking revenue based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating design and operating effectiveness of the internal control for the Authority's parking revenue, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Authority maintained, in all material respects, effective internal control over financial reporting for its parking revenue as of June 30, 2016, based upon established policies and procedures at the Aloha Stadium.

This report is intended solely for the information and use of the Auditor, State of Hawaii, and the board of directors and management of the Authority, and is not intended to be and should not be used by anyone other than these specific parties.

KKDLY LLC

Honolulu, Hawaii
December 29, 2016



DEPT. COMM. NO. 336

**Centerplate, Inc.
Aloha Stadium**

Schedule of Gross Swap Meet Receipts, Commissions,
and Net Swap Meet Proceeds Receivable

(With Independent Auditors' Report Thereon)

June 30, 2016

Submitted by
THE AUDITOR
STATE OF HAWAII

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying schedule of gross swap meet receipts, commissions, and net swap meet proceeds receivable of the swap meet operations at the Aloha Stadium as of and for the year ended June 30, 2016.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule in accordance with the swap meet management contract dated September 1, 2014, as amended, between the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as owner, and Centerplate, Inc., as swap meet management; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

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 schedule of gross swap meet receipts, commissions, and net swap meet proceeds receivable referred to above presents fairly, in all material respects, the gross swap meet receipts, commissions, and net swap meet proceeds receivable from Centerplate, Inc. at the Aloha Stadium as of and for the year ended June 30, 2016, in accordance with the swap meet management contract referred to above.

Restriction on Use

This report is intended solely for the information and use of the Auditor, State of Hawaii, and the boards of directors and managements of the Authority and Centerplate, Inc., and is not intended to be and should not be used by anyone other than these specified parties.

KKDL Y LLC

Honolulu, Hawaii
December 29, 2016

CENTERPLATE, INC.
ALOHA STADIUM

Schedule of Gross Swap Meet Receipts, Commissions,
and Net Swap Meet Proceeds Receivable

As of and for the year ended June 30, 2016

	<u>Vendors</u>	<u>Buyers</u>	<u>Total</u>
Gross swap meet receipts	\$ 4,343,288	\$ 866,724	\$ 5,210,012
Commission rate	19.75%	19.75%	19.75%
Commissions	<u>857,799</u>	<u>171,178</u>	<u>1,028,977</u>
Total gross swap meet receipts	4,343,288	866,724	5,210,012
Less total commissions	<u>857,799</u>	<u>171,178</u>	<u>1,028,977</u>
Net swap meet receipts	3,485,489	695,546	4,181,035
Less net swap meet proceeds received	<u>3,158,767</u>	<u>609,733</u>	<u>3,768,500</u>
Net swap meet proceeds receivable at June 30, 2016	<u>\$ 326,722</u>	<u>\$ 85,813</u>	<u>\$ 412,535</u>

See accompanying independent auditors' report.

ORIGINAL



DEPT. COMM. NO. 336

**Centerplate, Inc.
Aloha Stadium**

Schedule of Sales, Commissions, and Commissions Receivable
(With Independent Auditors' Report Thereon)

June 30, 2016

Submitted by
THE AUDITOR
STATE OF HAWAII

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying schedule of sales, commissions, and commissions receivable of the concession operations at the Aloha Stadium as of and for the year ended June 30, 2016.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule in accordance with the provisions of the concessionaire's contract dated January 3, 2012, between the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as owner, and Centerplate, Inc., as concessionaire; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

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 schedule of sales, commissions, and commissions receivable referred to above presents fairly, in all material respects, the sales, commissions, and commissions receivable from Centerplate, Inc. at the Aloha Stadium as of and for the year ended June 30, 2016, in accordance with the concessionaire's contract referred to above.

Restriction on Use

This report is intended solely for the information and use of the Auditor, State of Hawaii, and the boards of directors and managements of the Authority and Centerplate, Inc., and is not intended to be and should not be used by anyone other than these specified parties.

KKDL Y LLC

Honolulu, Hawaii
December 29, 2016

CENTERPLATE, INC.
ALOHA STADIUM

Schedule of Sales, Commissions,
and Commissions Receivable

As of and for the year ended June 30, 2016

	Food and beverage	Novelties	Catering	Subcontractor food	Total
Gross receipts (net/95.288%)	\$ 2,646,929	\$ 129,021	\$ 158,488	\$ 674,637	\$ 3,609,075
Less state GET (4.712%)	124,723	6,079	7,468	31,789	170,059
Sales subject to commission	2,522,206	122,942	151,020	642,848	3,439,016
Commission rate	34.1%	7.0%	10.0%	15.0%	
Total commissions due to Stadium Authority	860,072	8,606	15,102	96,427	980,207
Less commissions received	826,763	8,224	14,775	92,940	942,702
Commissions receivable at June 30, 2016	\$ 33,309	\$ 382	\$ 327	\$ 3,487	\$ 37,505

See accompanying independent auditors' report.

ORIGINAL



DEPT. COMM. NO. 336

**Centerplate, Inc.
Aloha Stadium**

Agreed-Upon Procedures for the Reserve Account of Centerplate, Inc.
and the Food and Beverage Concession Operations
(With Independent Accountants' Report on Applying
Agreed-Upon Procedures Thereon)

June 30, 2016

Submitted by
THE AUDITOR
STATE OF HAWAII

**Independent Accountants' Report
on Applying Agreed-Upon Procedures**

The Auditor
State of Hawaii:

We have performed the procedures enumerated below, which were agreed to by the management of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, solely to assist the Authority in evaluating the account balance and transactions of the Reserve Account of Centerplate, Inc., as defined in the concessionaire's contract between the Authority and Centerplate, Inc., as of and for the year ended June 30, 2016, and to assist the Authority in evaluating the operations of the food and beverage concession at Aloha Stadium (the Stadium) by Centerplate, Inc. for the year ended June 30, 2016. The Authority's management is responsible for the Reserve Account of Centerplate, Inc. and the food and beverage concession at the Stadium. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Reserve Account of Centerplate, Inc.

1. We obtained an analysis of the activity in the Reserve Account for the year ended June 30, 2016.
2. We recomputed the 2% of gross receipts required to be deposited into the Reserve Account for the year ended June 30, 2016 in accordance with the concessionaire's contract without exception.
3. We reviewed the timeliness of deposits of cash receipts, noting all deposits were made as of June 30, 2016 without exception. Cash receipts were deposited within 30 days of receipt.
4. We reviewed requisition forms, invoices, and canceled checks for expenditures made from the Reserve Account for the year ended June 30, 2016, and determined that they were allowable items properly supported by invoices and properly approved by the Stadium Manager without exception.
5. We reconciled the Reserve Account balance to the bank statement as of June 30, 2016, noting no unreconciled differences.
6. We confirmed the June 30, 2016 balance in the Reserve Account (Account #10-046645) with the depository bank without exception.
7. We noted that there was no policies and procedures manual available as of June 30, 2016.

Operations of the Food and Beverage Concessions

1. We selected seven events held at the Stadium and obtained the Authority's approval of these selections. These events were as follows:

University of Hawaii football games – September 3, 2015, October 10, 2015, October 31, 2015, and November 14, 2015

Swap meets – September 26, 2015, January 6, 2016, and March 2, 2016

- a. For these seven events, we observed the concession stand operations and performed test counts on a total of 191 inventory items.

There were discrepancies between the beginning inventory per Centerplate's concession stand sheet and the auditors' beginning inventory amount observed during the physical inventory count. These items are summarized below as follows:

- o *Football game on October 10, 2015*

Stand	Item	Beginning Count	
		Centerplate	KKDLY
101A	Bottle Water	456	624
103	Boiled Peanuts	81	31
104	Boiled Peanuts	82	32

- o *Football game on October 31, 2015*

Stand	Item	Beginning Count	
		Centerplate	KKDLY
106	1# Food Tray	150	149

- o *Football game on November 14, 2015*

Stand	Item	Beginning Count	
		Centerplate	KKDLY
108A	Onion Rings	110	111
108B	Bottle Soda 20oz	519	518
108B	Patties Hamburger	458	500
111	Bottle Soda 20oz	474	411
111	Boiled Peanuts	25	74

- *Swap Meet on January 6, 2016*

<u>Stand</u>	<u>Item</u>	<u>Beginning Count</u>	
		<u>Centerplate</u>	<u>KKDLY</u>
Ola Trailer	Cups, Coffee 16 oz.	86	82

There were discrepancies between the ending inventory per Centerplate's concession stand sheet and the auditors' ending inventory amount observed during the physical inventory count. These items are summarized below as follows:

- *Football game on October 10, 2015*

<u>Stand</u>	<u>Item</u>	<u>Ending Count</u>	
		<u>Centerplate</u>	<u>KKDLY</u>
104	Nachos Container Black	438	437

- *Football game on October 31, 2015*

<u>Stand</u>	<u>Item</u>	<u>Ending Count</u>	
		<u>Centerplate</u>	<u>KKDLY</u>
104	Bottle Water	1,146	1,170
106	Bottle Water	599	450
106	Bottle Soda 20oz	296	298
106	Franks Beef 6" 6/1 Gourmet	138	147

- *Football game on November 14, 2015*

<u>Stand</u>	<u>Item</u>	<u>Ending Count</u>	
		<u>Centerplate</u>	<u>KKDLY</u>
108A	Family Pack Patties	97	98
108A	Food Tray 3# Red Container 1-Comp Foam HB	298	297
108B	Combo	186	183
113	Bottle Soda 20oz	801	803

○ *Swap Meet on January 6, 2016*

<u>Stand</u>	<u>Item</u>	<u>Ending Count</u>	
		<u>Centerplate</u>	<u>KKDLY</u>
Building A	Hamburger Combo	72	74

- b. We noted the timeliness of cash receipt deposits without exception.
 - c. We recomputed the propriety of the recording of concession sales by category without exception.
2. For these seven events, we noted that the commissions paid to the Stadium were based on gross receipts, net of Hawaii general excise tax, in accordance with the contract between the Stadium and Centerplate, Inc. without exception.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Reserve Account of Centerplate, Inc. and on the inventory used in the food and beverage concession at the Stadium by Centerplate, Inc. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Auditor, State of Hawaii, and the boards of directors and management of the Authority and Centerplate, Inc., and is not intended to be and should not be used by anyone other than these specified parties.

KKDLY LLC

Honolulu, Hawaii
December 29, 2016

ORIGINAL



DEPT. COMM. NO. 336

**Centerplate, Inc.
Aloha Stadium**

Agreed-Upon Procedures for Swap Meet Operations
(With Independent Accountants' Report on Applying
Agreed-Upon Procedures Thereon)

June 30, 2016

Submitted by
THE AUDITOR
STATE OF HAWAII

**Independent Accountants' Report
on Applying Agreed-Upon Procedures**

The Auditor
State of Hawaii:

We have performed the procedures enumerated below, which were agreed to by the management of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, solely to assist the Authority in evaluating the vendor and buyer admission fees from the swap meet operations at Aloha Stadium (the Stadium) managed by Centerplate, Inc. (Centerplate) for the year ended June 30, 2016. The Authority's management is responsible for the vendor and buyer admission fees from swap meet operations at the Stadium. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Vendor Fees

Daily Fees

1. We reviewed the internal controls over daily vendor fees and the collection of cash.
2. We selected 15 swap meet dates throughout the year ended June 30, 2016, which included July 5, 2015, August 16, 2015, September 9, 2015, October 11, 2015, October 28, 2015, November 29, 2015, December 13, 2015, January 2, 2016, January 24, 2016, February 14, 2016, March 6, 2016, April 23, 2016, May 15, 2016, June 12, 2016, and June 29, 2016. We performed the following procedures for those dates to assist the Authority in determining whether internal controls over daily vendor fees ensure that the correct daily vendor fees are assessed for the different size stalls and whether internal controls over the collection of cash ensure that cash received are properly accounted for, recorded, and deposited:
 - a. We obtained the Transaction Summary report, which summarizes vendor fees received for that day by vendor, and agreed the total fees received to the Daily Cash Summary report, which summarized the fees received for that day by cash denomination and credit card type without exception.
 - b. We agreed the total daily fees received from the Transaction Summary and Daily Cash Summary reports to the WSCR (Weekly Sales and Cash Report) Daily Summary, which also includes parking fees collected during the day without exception.

- c. We agreed the total daily cash receipts from the WSCR Daily Summary to the validated deposit slips and bank statements without exception.
- d. In order to determine whether the daily vendor fees were assessed properly, we obtained the Transaction Journal – Booth Type report (detail by booth type for daily sales) for that day. We agreed the rate for the booth type purchased to the Vendor Fee Schedule for each vendor listed in the Transaction Summary report and recalculated the fees collected without exception.

Reservation Fees

1. We reviewed the internal controls over vendor reservation fees and the collection of cash.
2. We selected three vendors from the Transaction Journal for each of the following swap meet dates: July 5, 2015, August 16, 2015, October 11, 2015, February 14, 2016, and April 23, 2016. We performed the following procedures for those vendors to assist the Authority in determining whether the internal controls over vendor reservation fees ensure that the correct vendor reservation fees are assessed for the different size stalls and whether the internal controls over the collection of cash ensure that cash received are properly accounted for, recorded, and deposited:
 - a. We obtained the Transaction Summary report, which summarizes vendor fees received for that day by vendor, and agreed the total fees received to the Daily Cash Summary report, which summarized the fees received for that day by cash denomination and credit card type, without exception.
 - b. We agreed the total daily fees received from the Transaction Summary and Daily Cash Summary reports to the WSCR (Weekly Sales and Cash Report) Daily Summary, which also includes parking fees collected during the day, without exception.
 - c. We agreed the total daily cash receipts from the WSCR Daily Summary to the validated deposit slips and bank statements without exception.
 - d. We reviewed the subsequent month's Daily Cash Report noting that the reservation fees were properly applied without exception.
 - e. In order to determine whether the daily vendor fees were assessed properly, we obtained the Transaction Journal – Booth Type report (detail by booth type for daily sales) for that day. We agreed the rate for the booth type purchased to the Vendor Fee Schedule for each vendor listed in the Transaction Summary report and recalculated the fees collected without exception.

Buyer Admission Fees

1. We reviewed the internal controls over buyer admission fees and the collection of cash.
2. We selected 15 swap meet dates throughout the year ended June 30, 2016, which included July 5, 2015, August 16, 2015, September 9, 2015, October 11, 2015, October 28, 2015, November 29, 2015, December 13, 2015, January 2, 2016, January 24, 2016, February 14, 2016, March 6, 2016, April 23, 2016, May 15, 2016, June 12, 2016, and June 29, 2016. We performed the following

procedures for those dates to assist the Authority in determining whether internal controls over buyer admission fees ensure that correct buyer admission fees are assessed and whether the internal controls over the collection of cash ensure that cash received are properly accounted for, recorded, and deposited:

- a. We obtained the Daily Swap Meet Parking Recap Summary and agreed amounts (i.e., coupon for special entry, promotion, etc.) to supporting documentation without exception.
- b. We agreed the buyer admission fees collected to the buyer admission fee schedule without exception.
- c. We recalculated the buyer admission fees collected without exception.
- d. We agreed the daily cash receipts collected to the validated deposit slips and bank statements without exception.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the vendor and buyer admission fees from the swap meet operations at the Stadium managed by Centerplate. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Auditor, State of Hawaii, and the boards of directors and managements of the Authority and Centerplate, and is not intended to be and should not be used by anyone other than these specified parties.

KKDL Y LLC

Honolulu, Hawaii
December 29, 2016