

March 25, 2020

VIA EMAIL

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

VIA EMAIL

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawai'i State Capitol, Room 431
Honolulu, Hawai'i 96813

RE: Financial Audit of the Hawai'i Tourism Authority

Dear President Kouchi and Speaker Saiki:

The financial audit of the Hawai'i Tourism Authority for the fiscal year ended June 30, 2019, was issued on December 18, 2019. The Office of the Auditor retained Accuity LLP to perform the financial audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial audit report.

You may view the financial audit report and Auditor's Summary on our website at:

http://files.hawaii.gov/auditor/Reports/2019_Audit/HTA2019.pdf; and

http://files.hawaii.gov/auditor/Reports/2019_Audit/HTA_Summary_2019.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

cc/attach (Auditor's Summary only): Senators

Representatives

Carol Taniguchi, Senate Chief Clerk

Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial Audit of the Hawai'i Tourism Authority

Financial Statements, Fiscal Year Ended June 30, 2019



PHOTO: HAWAII TOURISM AUTHORITY / TOR JOHNSON

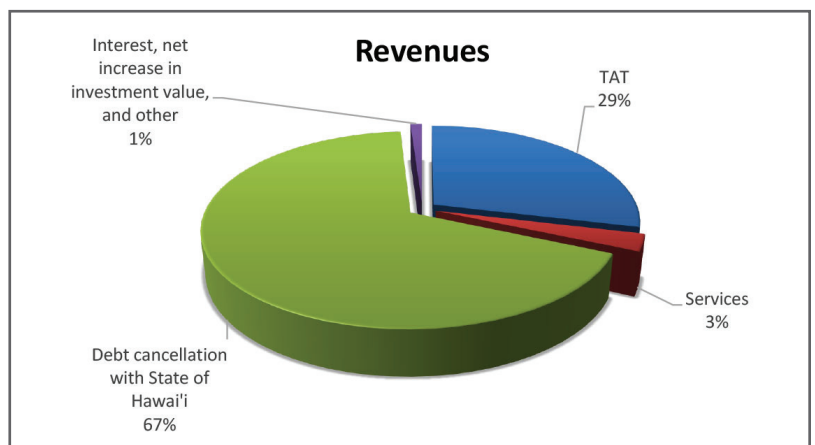
THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Hawai'i Tourism Authority, as of and for the fiscal year ended June 30, 2019. The audit was conducted by Accuity LLP.

About the Authority

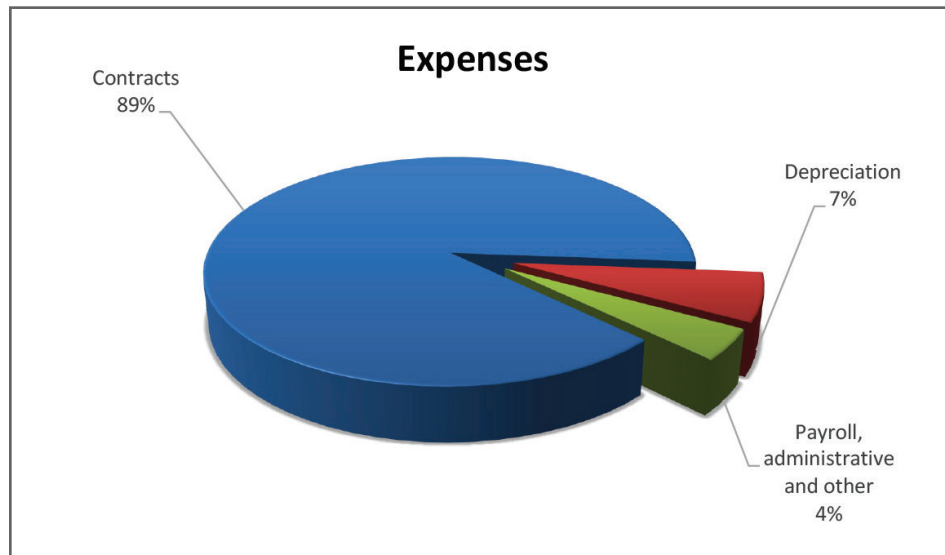
The Hawai'i Tourism Authority (HTA) is responsible for developing and implementing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of its marketing plan and its progress toward achieving the agency's strategic plan goals. HTA is also responsible for the Hawai'i Convention Center. The primary source of funding for HTA's operations is the Transient Accommodations Tax (TAT) collected by the State. HTA is governed by a board of directors comprised of 12 voting members, each of whom is appointed by the Governor. HTA was established on January 1, 1999, and is placed within the Department of Business, Economic Development and Tourism for administrative purposes.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2019, HTA reported total revenues of \$332.4 million, along with \$5 million in transfers from other state departments, and total expenses of \$108.3 million. Revenues consisted of \$95.5 million from TAT, \$9.3 million from charges for services, and interest and other revenues of \$3.5 million. HTA also reported the cancelation of approximately \$224.1 million in debt service payments on general obligation bonds related to the construction of the Hawai'i Convention Center pursuant to Act 86, Session Laws of Hawai'i 2018, effective July 1, 2018.



Total expenses of \$108.3 million consisted of \$96.4 million for contracts, \$7.3 million for depreciation, and \$4.6 million for payroll, administrative, and other expenses.



As of June 30, 2019, total assets and deferred outflows of resources of \$325.5 million exceeded total liabilities and deferred inflows of resources of \$16.5 million, resulting in a net position of \$309 million. Total assets and deferred outflows of resources included: (1) cash of \$96 million, (2) investments of \$3.5 million, (3) land and net capital assets of \$196.8 million, and (4) other assets and deferred outflows of resources of \$29.2 million.

Auditors' Opinion

HTA RECEIVED AN UNMODIFIED OPINION that its 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*.

Special-Purpose Financial Statements for the Hawai'i Convention Center, as of and for the year ended December 31, 2019, will issue in July.

For the complete report and financial statements, visit our website at:
http://files.hawaii.gov/auditor/Reports/2019_Audit/HTA2019.pdf

Hawaii Tourism Authority

(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2019

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
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June 30, 2019

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Report of Independent Auditors

The Auditor
State of Hawaii

The Board of Directors
Hawaii Tourism Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hawaii Tourism Authority (the "Authority"), a component unit of the State of Hawaii, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the index.

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

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

Opinions on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Authority include only the governmental activities and each major fund of the Authority, and are not intended to present fairly the financial position of the State of Hawaii as of June 30, 2019, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 7, the remaining outstanding balance on the debt service payments between the Authority and State Department of Budget and Finance was cancelled effective July 1, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and budgetary comparison statements for the Tourism Special Fund and Convention Center Enterprise Special Fund on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
December 18, 2019

Hawaii Tourism Authority

(A Component Unit of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2019

The Hawaii Tourism Authority (the "Authority") was established on January 1, 1999 by Act 156, Session Laws of Hawaii 1998. The Authority is responsible for developing and implementing a strategic tourism marketing plan to enhance and promote the Hawaii brand. As management of the Authority, we offer readers of these basic financial statements, this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2019. This discussion and analysis is designed to assist the reader in focusing on the Authority's significant financial matters and activities and to identify any significant changes in the Authority's financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Overview of the Basic Financial Statements

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

Government-Wide Financial Statements

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

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

Hawaii Tourism Authority

(A Component Unit of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2019

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities of the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation on pages 14 and 16, respectively, to facilitate this comparison between governmental funds and governmental activities.

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

Notes to the Basic Financial Statements

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

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis
June 30, 2019

Condensed Financial Information

The following are summaries from the Authority's government-wide financial statements as of and for the years ended June 30, 2019 and 2018:

Condensed Statements of Net Position
As of June 30, 2019 and 2018

	2019	2018
Assets		
Current assets	\$ 98,885,000	\$ 98,492,000
Capital assets, net	196,781,000	204,031,000
Investments – noncurrent	3,495,000	800,000
Other noncurrent assets	24,883,000	19,885,000
Total assets	<u>\$ 324,044,000</u>	<u>\$ 323,208,000</u>
Deferred outflows of resources		
Deferred outflows on net pension liability	\$ 996,000	\$ 1,606,000
Deferred outflows on net other postemployment benefits liability	458,000	345,000
Total deferred outflows of resources	<u>\$ 1,454,000</u>	<u>\$ 1,951,000</u>
Liabilities		
Current liabilities	\$ 4,118,000	\$ 227,743,000
Noncurrent liabilities	12,102,000	11,943,000
Total liabilities	<u>\$ 16,220,000</u>	<u>\$ 239,686,000</u>
Deferred inflows of resources		
Deferred inflows on net pension liability	\$ 212,000	\$ 600,000
Deferred inflows on net other postemployment benefits liability	96,000	7,000
Total deferred inflows of resources	<u>\$ 308,000</u>	<u>\$ 607,000</u>
Net position		
Net investment in capital assets	\$ 196,781,000	\$ 43,806,000
Restricted	112,189,000	41,060,000
Total net position	<u>\$ 308,970,000</u>	<u>\$ 84,866,000</u>

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis
June 30, 2019

Condensed Statements of Activities
For the Years Ended June 30, 2019 and 2018

	2019	2018
Revenues		
Program revenues		
Charges for services	\$ 9,325,000	\$ 10,508,000
General revenues		
Transient accommodations taxes	95,500,000	108,500,000
Other	3,519,000	431,000
Debt cancellation with State of Hawaii	<u>224,110,000</u>	<u>-</u>
Total revenues	<u>332,454,000</u>	<u>119,439,000</u>
Expenses		
Hawaii Convention Center management		
Contract	17,307,000	15,241,000
Interest on debt obligation to State Department of Budget and Finance	-	9,350,000
Depreciation	7,313,000	7,278,000
Payroll	307,000	281,000
Pension	79,000	94,000
Postemployment	51,000	45,000
Administrative and general	-	12,000
Other	<u>144,000</u>	<u>113,000</u>
Total Hawaii Convention Center management expenses	<u>25,201,000</u>	<u>32,414,000</u>
Tourism and marketing		
Contract	79,125,000	68,781,000
Payroll	2,201,000	2,064,000
Administrative and general	640,000	745,000
Pension	580,000	693,000
Postemployment	376,000	330,000
Other	<u>227,000</u>	<u>208,000</u>
Total tourism and marketing expenses	<u>83,149,000</u>	<u>72,821,000</u>
Total expenses	108,350,000	105,235,000
Transfers	<u>-</u>	<u>(30,000)</u>
Change in net position	224,104,000	14,174,000
Net position		
Beginning of year	<u>84,866,000</u>	<u>70,692,000</u>
End of year	<u>\$ 308,970,000</u>	<u>\$ 84,866,000</u>

Hawaii Tourism Authority

(A Component Unit of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2019

Financial Analysis

Current Assets increased by approximately \$393,000, or 0.4%, primarily due to an increase in accounts receivable of approximately \$2,319,000, partially offset by a decrease in cash and cash equivalents and other assets of approximately \$1,143,000 and \$784,000, respectively.

Capital Assets decreased by approximately \$7,249,000, or 3.6%, primarily due to the recording of current year depreciation expense of approximately \$7,313,000, partially offset by capital asset purchases. A substantial portion of the Authority's capital asset additions pertains to renovations and improvements to the Center. See Note 4 to the financial statements.

Investments increased by approximately \$2,695,000, or 336.9%, due to increasing investment positions in the Tourism Emergency Special Fund, that were previously held in cash equivalents.

Other Noncurrent Assets increased by approximately \$4,998,000, or 25.1%. This represents unspent funds held by Anschutz Entertainment Group and the Department of Accounting and General Services for emergency capital improvements, repair or maintenance purchases, and funds earmarked for various capital improvement projects for the Center.

Current Liabilities decreased by approximately \$223,625,000, or 98.2%, primarily due to a decrease in current amounts due to the State Department of Budget and Finance ("Budget and Finance") of approximately \$224,110,000, partially offset by an increase in vouchers payable of approximately \$456,000, or 13.4%. Amounts due to Budget and Finance pertain to current year reimbursements for debt service payments on general obligation bonds whose proceeds were used to fund the construction of the Center.

Noncurrent Liabilities increased by approximately \$158,000, or 1.3%, primarily due to an increase in net pension liability of approximately \$120,000.

Net Position went from a net position of approximately \$84,866,000 at June 30, 2018 to a net position of approximately \$308,970,000 at June 30, 2019 due to cancellation of amounts due to Budget and Finance.

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds, proceeds of which were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds was appropriated by the Legislature from general funds. The Authority's statutorily required Reimbursable General Obligation payments are funded by an allocated portion of the State's transient accommodations tax ("TAT") revenue through June 30, 2018 and though revenue generated from the operation of the Center.

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

On June 29, 2018, Act 086, Session Laws of Hawaii 2018 ("Act 086"), canceled the remaining outstanding balance of approximately \$224,110,000 on the debt service payments, effective July 1, 2018. Additional information regarding the Authority's indebtedness can be found in Note 7 to the financial statements.

Hawaii Tourism Authority

(A Component Unit of the State of Hawaii)

Management's Discussion and Analysis

June 30, 2019

Expenses increased by approximately \$3,085,000, or 2.9%, primarily due to the increase in contract expenses in the current year as compared to the prior year.

Revenues increased by approximately \$213,015,000, or 0.4%, primarily due to cancellation of amounts due to Budget and Finance.

Financial Analysis of the Authority's Individual Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of approximately \$98,036,000, an increase of approximately \$21,985,000 in comparison with the prior fiscal year. The Authority's entire fund balance is committed to indicate that it can only be used for specific purposes pursuant to formal action of the Authority's board of directors.

The Tourism Special Fund is used to account for functions related to the development and promotion of Hawaii's brand as a visitor destination. At the end of the current fiscal year, committed fund balance of the Tourism Special Fund was approximately \$69,078,000, a decrease of 1.3% from the prior fiscal year. As a measure of the Tourism Special Fund's liquidity, it may be useful to compare the committed fund balance to total fund expenditures. Committed fund balance represents 84% of total Tourism Special Fund expenditures, a decrease of 12.3% from the prior fiscal year.

The Convention Center Enterprise Special Fund was established by Act 253 to receive all revenues generated from the operation of the Center and an allocated portion of the revenues received from the State's TAT. Funds collected by the Convention Center Enterprise Special Fund are used to pay all expenses arising from the use and operation of the Center and to reimburse Budget and Finance for debt service payments on general obligation bonds issued for construction of the Hawaii Convention Center through June 30, 2018. As noted above, Act 086 cancelled the remaining outstanding balance of debt service payments effective July 1, 2018. In accordance with Act 253, the operations of the Convention Center Enterprise Special Fund are included in the Authority's financial statements. At the end of the current fiscal year, the Convention Center Enterprise Special Fund had a committed fund balance of approximately \$23,959,000.

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

The Homelessness in Tourist and Resort Areas Special Fund was established by Act 214, Session Laws of Hawaii 2017, to work with the Hawaii Lodging and Tourism Association to address homelessness in tourist and resort areas. Funds shall be released by the State of Hawaii when a dollar-for-dollar match is provided by the private sector. At the end of the current fiscal year, the Homelessness in Tourist and Resort Areas Special Fund had a fund balance of zero after expenditures of \$1,000,000.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Management's Discussion and Analysis
June 30, 2019

Capital Asset

Capital Assets

As of June 30, 2019, the Authority had approximately \$196,781,000 invested in capital assets as shown in the following table. There was a net decrease (additions, deductions and depreciation) of approximately \$7,249,000 from the end of the prior fiscal year.

	2019	2018
Capital assets		
Land	\$ 131,497,000	\$ 131,497,000
Buildings and improvements	211,714,000	211,630,000
Furniture, fixtures, and equipment	5,577,000	5,380,000
Construction in progress	9,924,000	10,151,000
Total capital assets	<u>358,712,000</u>	<u>358,658,000</u>
Less: Accumulated depreciation and amortization	<u>(161,931,000)</u>	<u>(154,627,000)</u>
Total capital assets, net	<u>\$ 196,781,000</u>	<u>\$ 204,031,000</u>

Additional information regarding the Authority's capital assets can be found in Note 4 to the financial statements.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Statement of Net Position – Governmental Activities
June 30, 2019

Current assets	
Equity in cash and cash equivalents and investments in State Treasury	\$ 95,978,774
Accounts receivables	2,377,023
Other current assets	529,365
Total current assets	<u>98,885,162</u>
Noncurrent assets	
Investments	3,495,160
Capital assets	
Land	131,496,508
Construction in progress	9,923,657
Other capital assets, net	55,361,218
Capital assets, net of depreciation	<u>196,781,383</u>
Other noncurrent assets	<u>24,882,664</u>
Total noncurrent assets	<u>225,159,207</u>
Total assets	<u>324,044,369</u>
Deferred outflows of resources	
Deferred outflows on net pension liability	995,747
Deferred outflows on net other postemployment benefits liability	458,438
Total deferred outflows of resources	<u>1,454,185</u>
Total assets and deferred outflows of resources	<u>\$ 325,498,554</u>

The accompanying notes are an integral part of these financial statements.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Statement of Net Position – Governmental Activities
June 30, 2019

Current liabilities	
Vouchers payable	\$ 3,854,127
Accrued payroll	149,747
Accrued vacation	114,480
Total current liabilities	<u>4,118,354</u>
Long-term liabilities	
Accrued vacation, net of current portion	212,530
Net other postemployment benefits liability	5,612,179
Net pension liability	6,277,316
Total long-term liabilities	<u>12,102,025</u>
Total liabilities	<u>16,220,379</u>
Deferred inflows of resources	
Deferred inflows on net pension liability	212,508
Deferred inflows on net other postemployment benefits liability	95,849
Total deferred inflows of resources	<u>308,357</u>
Total liabilities and deferred inflows of resources	<u>16,528,736</u>
Net position	
Net investment in capital assets	196,781,383
Restricted	112,188,435
Total net position	<u>308,969,818</u>
Total liabilities and net position	<u>\$ 325,498,554</u>

The accompanying notes are an integral part of these financial statements.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Statement of Activities – Governmental Activities
Year Ended June 30, 2019

	Functional Programs		
	Hawaii Convention Center Management	Tourism and Marketing	Total
Expenses			
Contracts	\$ 17,307,234	\$ 79,125,058	\$ 96,432,292
Depreciation	7,312,729	-	7,312,729
Payroll	306,759	2,200,703	2,507,462
Pension	79,428	580,493	659,921
Administrative and general	-	640,254	640,254
Postemployment	51,451	376,029	427,480
Other	143,459	226,735	370,194
Total expenses	<u>\$ 25,201,060</u>	<u>\$ 83,149,272</u>	<u>108,350,332</u>
Program revenues – charge for services			<u>9,324,966</u>
Net expenses			<u>99,025,366</u>
General revenues			
Transient accommodations tax			95,500,000
Interest income			2,256,558
Net increase in fair value of investments			23,051
Other			1,239,533
Total general revenues			<u>99,019,142</u>
Debt cancellation with State of Hawaii			<u>224,110,234</u>
Change in net position			<u>224,104,010</u>
Net position			
Beginning of year			<u>84,865,808</u>
End of year			<u>\$ 308,969,818</u>

The accompanying notes are an integral part of these financial statements.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Balance Sheet – Governmental Funds
June 30, 2019

	Tourism Special Fund	Convention Center Enterprise Special Fund	Tourism Emergency Special Fund	Homelessness in Tourist and Resort Areas Special Fund	Total Governmental Funds
Assets					
Equity in cash and cash equivalents and investments in State Treasury	\$ 70,852,568	\$ 23,571,190	\$ 1,555,016	\$ -	\$ 95,978,774
Investments	-	-	3,495,160	-	3,495,160
Due from State Department of Budget and Finance	1,632,802	536,791	-	-	2,169,593
Due from other fund	69,832	-	-	-	69,832
Other assets	256,879	89,925	19,656	-	366,460
Total assets	<u>\$ 72,812,081</u>	<u>\$ 24,197,906</u>	<u>\$ 5,069,832</u>	<u>\$ -</u>	<u>\$ 102,079,819</u>
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	\$ 3,602,562	\$ 221,465	\$ -	\$ -	\$ 3,824,027
Due to other funds	-	-	69,832	-	69,832
Other accrued liabilities	131,995	17,752	-	-	149,747
Total liabilities	<u>3,734,557</u>	<u>239,217</u>	<u>69,832</u>	<u>-</u>	<u>4,043,606</u>
Fund balances					
Committed	69,077,524	23,958,689	5,000,000	-	98,036,213
Total liabilities and fund balances	<u>\$ 72,812,081</u>	<u>\$ 24,197,906</u>	<u>\$ 5,069,832</u>	<u>\$ -</u>	<u>\$ 102,079,819</u>

The accompanying notes are an integral part of these financial statements.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position**
June 30, 2019

Total fund balance – Governmental funds	\$ 98,036,213
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of	
Land	131,496,508
Construction in progress	9,923,657
Other	217,291,914
Accumulated depreciation and amortization	<u>(161,930,696)</u>
	196,781,383
Vouchers payable for construction in progress for capital assets are not recognized in governmental funds.	(30,100)
Other assets are not available to pay or be used for current-period expenditures and are not recognized in governmental funds.	25,252,999
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of	
Accrued vacation payable	(327,010)
Net other postemployment benefits liability	(5,612,179)
Net pension liability	<u>(6,277,316)</u>
	(12,216,505)
Deferred outflows of resources are for future periods and are not reported in the funds. Those deferred outflows consist of	
Deferred outflows on net pension liability	995,747
Deferred outflows on net other postemployment benefits liability	<u>458,438</u>
	1,454,185
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of	
Deferred inflows on net pension liability	(212,508)
Deferred inflows on net other postemployment benefits liability	<u>(95,849)</u>
	<u>(308,357)</u>
Net position of governmental activities	<u>\$ 308,969,818</u>

The accompanying notes are an integral part of these financial statements.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds
Year Ended June 30, 2019

	Tourism Special Fund	Convention Center Enterprise Special Fund	Tourism Emergency Special Fund	Homelessness in Tourist and Resort Areas Special Fund	Total Governmental Funds
Revenues					
Transient accommodations tax	\$ 79,000,000	\$ 16,500,000	\$ -	\$ -	\$ 95,500,000
Hawaii Convention Center revenues	-	9,324,966	-	-	9,324,966
Interest	1,661,131	536,791	58,636	-	2,256,558
Net increase in the fair value of investments	-	-	23,051	-	23,051
Debt cancellation with State of Hawaii	-	19,283,451	-	-	19,283,451
Other	239,533	-	-	1,000,000	1,239,533
Total revenues	<u>80,900,664</u>	<u>45,645,208</u>	<u>81,687</u>	<u>1,000,000</u>	<u>127,627,559</u>
Expenditures					
Contract	78,125,059	22,261,313	-	1,000,000	101,386,372
Personnel	2,852,302	393,271	-	-	3,245,573
Administrative and general	634,030	-	6,224	-	640,254
Other	256,735	113,459	-	-	370,194
Total expenditures	<u>81,868,126</u>	<u>22,768,043</u>	<u>6,224</u>	<u>1,000,000</u>	<u>105,642,393</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(967,462)</u>	<u>22,877,165</u>	<u>75,463</u>	<u>-</u>	<u>21,985,166</u>
Other financing sources (uses)					
Transfers in	75,463	-	-	-	75,463
Transfers out	-	-	(75,463)	-	(75,463)
Total other financing sources (uses)	<u>75,463</u>	<u>-</u>	<u>(75,463)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(891,999)</u>	<u>22,877,165</u>	<u>-</u>	<u>-</u>	<u>21,985,166</u>
Fund balances					
Beginning of year	<u>69,969,523</u>	<u>1,081,524</u>	<u>5,000,000</u>	<u>-</u>	<u>76,051,047</u>
End of year	<u>\$ 69,077,524</u>	<u>\$ 23,958,689</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ 98,036,213</u>

The accompanying notes are an integral part of these financial statements.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities**
Year Ended June 30, 2019

Total net change in fund balances – Governmental funds	\$ 21,985,166
Amounts reported for governmental activities in the statement of activities are different because	
Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are	
Capital asset additions	773,202
Capital asset deductions	(719,197)
Accumulated depreciation on disposals	8,966
Depreciation expense	<u>(7,312,729)</u>
Excess of capital outlay over depreciation expense	(7,249,758)
Other assets are not available to be used for current period expenditures and are not recognized in governmental funds.	4,891,109
Debt cancellation is revenues in the statement of activities but not recognized in the governmental funds	204,826,783
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	
Change in accrued vacation payable	16,579
Net pension activity	(22,536)
Net other postemployment benefits activity	<u>(343,333)</u>
Total	<u>(349,290)</u>
Change in net position of governmental activities	<u>\$ 224,104,010</u>

The accompanying notes are an integral part of these financial statements.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

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

The Authority is governed by a board of directors comprising of 12 voting members, including those recommended by the State Legislature. The Governor of the State appoints the 12 voting members.

The accompanying basic financial statements of the Authority, a discretely presented component unit of the State of Hawaii ("State"), have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB").

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Resources that are dedicated internally are reported as general revenues rather than program revenues.

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

Net position is restricted when determined by a formal action of the State Legislature.

The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Authority uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Governmental Funds

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

- **Tourism Special Fund** –The Tourism Special Fund (“Tourism Fund”) is used to account for functions related to the development and promotion of the tourism industry.
- **Convention Center Enterprise Special Fund** – The Convention Center Enterprise Special Fund (“Convention Center Fund”) is used to account for functions related to the operation and management of the Center.
- **Tourism Emergency Special Fund** – The Tourism Emergency Special Fund (“Emergency Fund”) is used to account for functions related to the maintenance of a tourism emergency fund.
- **Homelessness in Tourist and Resort Areas Special Fund** – The Homelessness in Tourist and Resort Areas Special Fund (“Homelessness Fund”) is used to account for the functions related to the rehabilitation of homelessness in tourist and resort areas.

Basis of Accounting

The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Transient Accommodations Tax

In accordance with Sections 201B-11 and 237D-6.5, Hawaii Revised Statutes (“HRS”), the primary source of funding for the Authority's Tourism Fund and Convention Center Fund is the transient accommodations tax (“TAT”) collected by the State. The TAT is assessed at a rate of 10.25% on the gross rental proceeds derived from providing transient accommodations.

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

Of the total TAT revenues deposited into the Tourism Fund, 0.5% is allocated to a subaccount in the Tourism Fund to provide funding for the safety and security budget, pursuant to Section 237D-6.5, and at least \$1,000,000 shall be made available to support efforts to manage, improve and protect Hawaii's natural environment and areas frequented by visitors, pursuant to Section 201B-11. Effective July 1, 2007, funds shall be deposited into the Emergency Fund, established in Section 201B-10, in a manner sufficient to maintain a fund balance of \$5,000,000 in fund.

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

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Investments

The Authority's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles.

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

Accrued Vacation

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

Pensions

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

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Postemployment Benefits Other Than Pensions

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

Marketing Contractors

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

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

Center Contract

The Authority contracts with Anschutz Entertainment Group (“AEG”), a private contractor, to manage and operate the Center. AEG is on a cost-reimbursement contract whereby it is reimbursed by the Authority for costs incurred in operating the Center. AEG also assumes responsibility for the Center’s sales and marketing efforts. Starting January 1, 2020, Act 026, Session Laws of Hawaii 2019, authorized contracts entered by the Authority for the marketing of the Center to be issued separately from the management, use, operation or maintenance of the facility. The Authority’s contract with AEG extends through December 31, 2019. The management fees paid to AEG for the year ended June 30, 2019 amounted to \$261,598.

Intrafund and Interfund Transactions

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

Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Newly Issued Accounting Pronouncements

GASB Statement No. 83

During fiscal year 2019, the Authority implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations related to tangible capital assets. This Statement requires recognition of a liability for legal obligations to perform asset retirement activities related to tangible capital assets. This Statement did not have any effect on the Authority's financial statements.

GASB Statement No. 84

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

GASB Statement No. 87

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

GASB Statement No. 88

During fiscal year 2019, the Authority implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement did not have any effect on the Authority's financial statements.

GASB Statement No. 89

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

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

GASB Statement No. 90

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

GASB Statement No. 91

The GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The Authority does not expect this Statement will have a material effect on its financial statements.

2. Cash

Equity in Cash and Cash Equivalents and Investments in State Treasury

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GAAP requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Authority. However, as these funds are held in the State cash pool, the Authority does not manage these investments and the types of investments, and related interest rate, credit and custodial risks are not determinable at the Authority's level. The risk disclosures and fair value leveling table of the State's cash pool are included in the State's Comprehensive Annual Financial Report ("CAFR") which may be obtained from the Department of Accounting and General Services' ("DAGS") website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

Cash and short-term investments held outside of the State Treasury are primarily held in a financial institution in the State of Hawaii. The Authority considers all cash and investments with original maturities of three months or less to be cash equivalents.

At June 30, 2019, the Authority's deposits with DAGS totaled \$95,972,127 and had a financial institution bank balance of \$6,647.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

3. Investments

At June 30, 2019, the fair value measurements reportable by the Authority consisted of investments in U.S. Treasury obligations valued at quoted market prices, a Level 1 valuation input. There were no investments for which Level 2 and 3 valuation inputs were required. The following table presents the fair value of the Authority's investments by level of input at June 30, 2019:

	Reported Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Emergency Funds				
U.S. Treasury obligations	\$ 3,495,160	\$ 3,495,160	\$ -	\$ -

The following table presents the Authority's investments by maturity period at June 30, 2019:

	Reported Value	Maturity (in years)		
		Less than 1	1-5	>5
Emergency Funds				
U.S. Treasury obligations	\$ 3,495,160	\$ 1,494,415	\$ 2,000,745	\$ -

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

4. Capital Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2019:

	Balance at July 1, 2018	Additions	Deductions	Balance at June 30, 2019
Capital assets not being depreciated				
Land	\$ 131,496,508	\$ -	\$ -	\$ 131,496,508
Construction in progress	10,151,187	449,825	(677,355)	9,923,657
Total capital assets not being depreciated	<u>141,647,695</u>	<u>449,825</u>	<u>(677,355)</u>	<u>141,420,165</u>
Capital assets being depreciated				
Buildings and improvements	211,629,561	84,961	-	211,714,522
Furnitures, fixtures, and equipment	5,380,818	238,416	(41,842)	5,577,392
Total capital assets being depreciated	<u>217,010,379</u>	<u>323,377</u>	<u>(41,842)</u>	<u>217,291,914</u>
Less: Accumulated depreciation and amortization				
Buildings and improvements	(150,229,580)	(7,058,567)	-	(157,288,147)
Furnitures, fixtures, and equipment	(4,397,353)	(254,162)	8,966	(4,642,549)
Total accumulated depreciation and amortization	<u>(154,626,933)</u>	<u>(7,312,729)</u>	<u>8,966</u>	<u>(161,930,696)</u>
Total capital assets, net	<u>\$ 204,031,141</u>	<u>\$ (6,539,527)</u>	<u>\$ (710,231)</u>	<u>\$ 196,781,383</u>

Depreciation expense charged to the Hawaii Convention Center management function amounted to \$7,312,729 for the fiscal year ended June 30, 2019. At June 30, 2019, vouchers payable include \$30,100 in accrued additions to construction in progress.

5. Other Assets

Other assets represent funds held by AEG and DAGS for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects. At June 30, 2019, funds held amounted to \$25,252,999.

6. Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities during the fiscal year ended June 30, 2019:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
Accrued vacation payable	\$ 343,589	\$ 152,565	\$ (169,144)	\$ 327,010	\$ 114,480
Net other postemployment benefits liability	5,564,284	480,974	(433,079)	5,612,179	-
Net pension liability	6,157,263	302,501	(182,448)	6,277,316	-
	<u>\$ 12,065,136</u>	<u>\$ 936,040</u>	<u>\$ (784,671)</u>	<u>\$ 12,216,505</u>	<u>\$ 114,480</u>

7. Due to State Department of Budget and Finance

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's TAT revenue through June 30, 2018 and through revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and State Department of Budget and Finance ("Budget and Finance"), respectively.

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Financial Statements
June 30, 2019

Effective July 1, 2002, the Convention Center Fund was established by Act 253. In accordance with Act 253, the Convention Center Fund was placed within the Authority and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center through June 30, 2018. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided the Authority the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the Authority by the CCA. The terms of the payment plan required the Authority to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. The payment plan was not directly related to the actual debt service on the general obligation bonds issued to finance the Center. The Authority's ability to meet its obligations in accordance with the payment plan was dependent upon the funds received by the Convention Center Fund. Effective July 1, 2018, Act 086, Session Laws of Hawaii 2018, canceled the remaining outstanding amount on the debt service payments.

8. Retirement Benefits

Pension Plan

Plan Description

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

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 plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
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The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- Retirement Benefits – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- 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 surviving dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at 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 surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving 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.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

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

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.

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- **Death Benefits** – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member’s contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving 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.
- **Disability and Death Benefits** – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2019 were 19% for all other employees. Contributions to the pension plan from the State was approximately \$481,656,000 for the fiscal year ended June 30, 2019.

Pursuant to Act 17, Session Laws of Hawaii 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for all other employees increased to 19% on July 1, 2018; and increases to 22% on July 1, 2019 and 24% on July 1, 2020.

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

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

At June 30, 2019, the Authority reported a net pension liability of approximately \$6,277,000 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2018, the Authority's proportion was 0.084% which was an increase of .001% from its proportion measured as of June 30, 2017.

There was no change in actuarial assumptions as of June 30, 2017 to June 30, 2018. There were no changes between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2019, the Authority recognized pension expense of approximately \$660,000. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 102,835	\$ (57,305)
Changes in assumptions	558,145	-
Net difference between projected and actual earnings on pension plan investments	-	(109,899)
Changes in proportion and differences between contributions and proportionate share of contributions	18,179	(45,304)
Contributions subsequent to the measurement date	<u>316,588</u>	<u>-</u>
	<u>\$ 995,747</u>	<u>\$ (212,508)</u>

At June 30, 2019, the approximate \$317,000 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2020	\$ 220,000
2021	184,000
2022	68,000
2023	(6,000)
2024	1,000
	<u>\$ 467,000</u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on December 12, 2016, based on the 2015 Experience Study for the five-year period from July 1, 2010 through June 30, 2015:

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

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

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS's Board of Trustees) 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 nominal rates of return (real returns and inflation) by the target asset allocation percentage. The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Strategic allocation (risk-based classes)		
Broad growth	63.0%	7.1%
Principal protection	7.0%	2.5%
Real return	10.0%	4.1%
Crisis risk offset	<u>20.0%</u>	4.6%
Total investments	<u>100.0%</u>	

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Discount Rate

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

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Authority's proportionate share of the net pension liability	<u>\$ 8,165,253</u>	<u>\$ 6,277,316</u>	<u>\$ 4,721,002</u>

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

Payables to the Pension Plan

The Authority's employer contributions payable to the ERS by fiscal year end was paid by June 30, 2019. Excess payments of \$6,500 are being applied to amounts due in fiscal year 2020.

Required Supplementary Information and Disclosures

The State's CAFR includes the required disclosures and required supplementary information on the State's pension plan.

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Postemployment Health Care and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The EUTF's complete financial statements are available at <http://eutf.hawaii.gov>.

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

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

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

Employees Covered by Benefit Terms

At July 1, 2018, the following number of plan members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	36,340
Inactive plan members entitled to but not yet receiving benefits	7,588
Active plan members	<u>50,519</u>
Total plan members	<u>94,447</u>

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Authority was approximately \$345,000 for the fiscal year ended June 30, 2019. The employer is required to make all contributions for members.

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

At June 30, 2019, the Authority reported a net OPEB liability of approximately \$5,612,000. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the net OPEB liability.

For the year ended June 30, 2019, the Authority recognized OPEB expense of approximately \$427,000. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (88,386)
Changes in assumptions	53,494	-
Net differences between projected and actual earnings on OPEB plan investments	-	(7,463)
Contributions subsequent to the measurement date	<u>404,944</u>	<u>-</u>
	<u>\$ 458,438</u>	<u>\$ (95,849)</u>

At June 30, 2019, the approximate \$405,000 reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30,	
2020	\$ (9,000)
2021	(9,000)
2022	(9,000)
2023	(7,000)
2024	(7,000)
Thereafter	<u>(1,000)</u>
	<u>\$ (42,000)</u>

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Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five-year period ended June 30, 2015:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
HMO*	Initial rates of 10.00%; declining to a rate of 4.86% after 13 years
Contribution	Initial rates of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental	Initial rates of 5.00% for the first three years; followed by 4.00%
Vision	Initial rates of 0.00% for the first three years; followed by 2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drugs.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	10.00%	8.65%
U.S. Microcap	7.00%	7.00%
U.S. Equity	15.00%	5.05%
Non-U.S. Equity	17.00%	6.50%
Global Options	7.00%	4.50%
Core Real Estate	10.00%	4.10%
Private Credit	6.00%	5.25%
Core Bonds	3.00%	1.30%
TIPS	5.00%	0.75%
Long Treasuries	6.00%	1.90%
Alternative Risk Premia	5.00%	1.45%
Trend Following	9.00%	3.00%
Total investments	<u>100.00%</u>	

Single Discount Rate

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

OPEB Plan Fiduciary Net Position

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

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

Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 6,031,230	\$ 466,946	\$ 5,564,284
Service cost	115,701	-	115,701
Interest on the total OPEB liability	358,238	-	358,238
Difference between expected and actual experience	(105,929)	-	(105,929)
Changes of assumptions	64,112	-	64,112
Employer contributions	-	344,387	(344,387)
Net investment income	-	39,710	(39,710)
Benefit payments	(174,431)	(174,431)	-
Administrative expense	-	130	(130)
Net changes	<u>257,691</u>	<u>209,796</u>	<u>47,895</u>
Ending balance	<u>\$ 6,288,921</u>	<u>\$ 676,742</u>	<u>\$ 5,612,179</u>

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Authority's proportionate share of the net OPEB liability	<u>\$ 6,634,942</u>	<u>\$ 5,612,179</u>	<u>\$ 4,808,538</u>

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

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of the net OPEB liability	<u>\$ 4,764,739</u>	<u>\$ 5,612,179</u>	<u>\$ 6,711,969</u>

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Payables to the OPEB Plan

The State's employer contributions payable to the EUTF by fiscal year end was paid by June 30, 2019.

Required Supplementary Information and Disclosures

The State's CAFR includes the required disclosures and required supplementary information on the State's OPEB plan.

9. Commitments and Contingencies

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2019, accumulated sick leave was approximately \$837,000.

Deferred Compensation Plan

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

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

Contingencies

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

10. Subsequent Events

The Authority has reviewed all events that have occurred from July 1, 2019 through December 18, 2019, the date that the financial statements were available to be issued, for proper accounting and disclosures in the financial statements.

**Required Supplementary Information
Other than Management's Discussion
and Analysis (Unaudited)**

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Budgetary Comparison Statements – Tourism Special Fund and
Convention Center Enterprise Special Fund
June 30, 2019

	Tourism Special Fund				Convention Center Enterprise Special Fund			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues								
Transient accommodations tax	\$ 87,334,815	\$ 87,446,365	\$ 79,000,000	\$ (8,446,365)	\$ 16,500,000	\$ 16,500,000	\$ 16,500,000	\$ -
Hawaii Convention Center Operations	-	-	-	-	37,534,480	37,552,919	9,235,041	(28,317,878)
Interest	-	-	1,632,802	1,632,802	-	-	536,791	536,791
Other	-	-	415,998	415,998	-	-	19,283,451	19,283,451
Total revenues	<u>87,334,815</u>	<u>87,446,365</u>	<u>81,048,800</u>	<u>(6,397,565)</u>	<u>54,034,480</u>	<u>54,052,919</u>	<u>45,555,283</u>	<u>(8,497,636)</u>
Expenditures	<u>87,334,815</u>	<u>87,446,365</u>	<u>80,672,760</u>	<u>(6,773,605)</u>	<u>54,034,480</u>	<u>54,052,919</u>	<u>24,427,022</u>	<u>(29,625,897)</u>
Excess of revenues over expenditures	-	-	376,040	376,040	-	-	21,128,261	21,128,261
Other financing sources – Transfers in	-	-	45,463	45,463	-	-	-	-
Excess of revenues and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 421,503</u>	<u>\$ 421,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,128,261</u>	<u>\$ 21,128,261</u>

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1. Budgeting and Budgetary Control

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

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

Budgetary control is maintained at the appropriation line item level as established in the appropriations act. The governor is authorized to transfer appropriations within a state agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Authority. During the fiscal year ended June 30, 2019, there were no expenditures in excess of appropriations at the legal level of budgetary control.

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

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

Hawaii Tourism Authority
(A Component Unit of the State of Hawaii)
Notes to Required Supplementary Information
June 30, 2019

A reconciliation of the budgetary to GAAP basis operating results of the Tourism Fund and Convention Center Fund for the fiscal year ended June 30, 2019 is as follows:

	Tourism Special Fund	Convention Center Enterprise Special Fund
Excess (deficiency) of revenues and other sources over (under) expenditures – actual (budgetary basis)	\$ 421,503	\$ 21,128,261
Reserve for encumbrances at fiscal year end	40,697,990	2,747,723
Expenditures for liquidation of prior fiscal year encumbrances	(46,009,904)	(2,485,915)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	<u>3,998,412</u>	<u>1,487,096</u>
Excess (deficiency) of revenues over expenditures – GAAP basis	<u>\$ (891,999)</u>	<u>\$ 22,877,165</u>

**Report of Independent Auditors 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

The Board of Directors
Hawaii Tourism Authority

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 governmental activities, each major fund, and the aggregate remaining fund information of the Hawaii Tourism Authority (the "Authority"), a component unit of the State of Hawaii, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 18, 2019.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or 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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
December 18, 2019