STATE OF HAWAI'I
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawai'i 96813-2917

LESLIE H. KONDO
State Auditor

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DEPT. COMM. NO. 152

December 22, 2017

HAND DELIVER

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

RE: Audit of the Stadium Authority

Dear President Kouchi:

The financial audit report of the Stadium Authority for the fiscal year ended June 30, 2017, was issued on December 7, 2017. The Office of the Auditor retained KKDLY LLC to perform the financial audit. For your information, we are enclosing a copy of the two-page Auditor's Summary and financial audit report.

You may view the Auditor's Summary and report on our website at:
http://files.hawaii.gov/auditor/Reports/2017_Audit/Stadium_Summary_2017.pdf and
http://files.hawaii.gov/auditor/Reports/2017_Audit/Stadium2017.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:ly

Enclosures

Auditor’s Summary

Financial Audit of the Stadium Authority

Financial Statements, Fiscal Year Ended June 30, 2017

PHOTO: ALOHA STADIUM

THE PRIMARY PURPOSE *of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Stadium Authority (Authority), as of and for the fiscal year ended June 30, 2017. The audit was conducted by KKDLY LLC.*

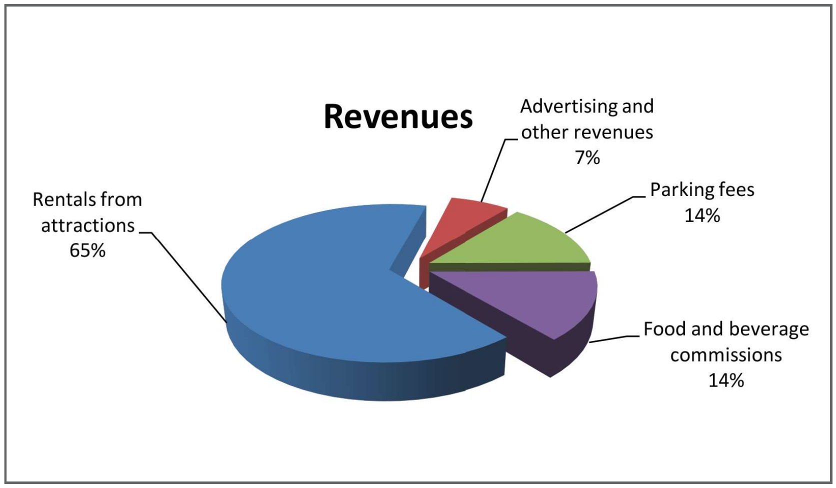
About the Authority

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

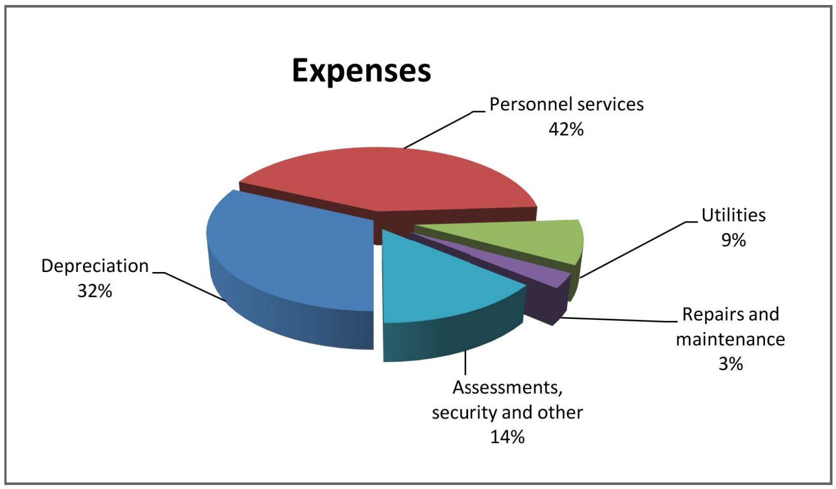
Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2017, the Authority reported total operating revenues of $7.4 million and total operating expenses of $11.7 million, resulting in an operating loss of $4.3 million. Operating revenues primarily consisted of $4.9 million from rentals from attractions and $1 million from food and beverage concessionaire commissions. Other operating revenues included $1 million in parking fees and $500,000 in advertising and other revenues. The Authority’s operating loss was partially offset by $6.4 million in capital contributions, which represents the portion of Aloha Stadium capital improvement costs that were paid by the State of Hawai‘i.

Operating expenses consisted of $3.8 million for depreciation, $4.9 million for personnel services, $1.1 million for utilities, and $300,000 for repairs and maintenance. Additional expenses totaled $1.6 million and included State central services assessments as well as security, professional services, and other costs.



As of June 30, 2017, total assets and deferred outflows of resources of Authority exceeded total liabilities and deferred inflows of resources by $81.4 million. Of this amount, $85.4 million was for investment in capital assets, $100,000 was restricted, and an unrestricted net deficit of $4.1 million. Total assets and deferred outflows of resources of $92.3 million were comprised of cash of $4.3 million, receivables and other assets of $2.6 million, and net capital assets of $85.4 million. Total liabilities and deferred inflows of resources of $10.9 million were comprised of net pension liability of $6.1 million, vacation and other retirement payable of $3.7 million, and other liabilities of $1.1 million.



Auditors' Opinion

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

Findings

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

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2017_Audit/Stadium2017.pdf

KDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Stadium Authority
State of Hawaii

(A Component Unit of the State of Hawaii)

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

June 30, 2017

Submitted by

THE AUDITOR
STATE OF HAWAII

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

Financial Statements and Supplementary Information

June 30, 2017

Table of Contents

SECTION I

INTRODUCTION SECTION

December 7, 2017

The Auditor
State of Hawaii:

We have completed our audit of the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2017. We transmit herewith our independent auditors' reports containing our opinion on those financial statements and our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Audit Objectives

The objectives of the audit were as follows:

1. To provide an opinion on the fair presentation of the Authority's financial statements in accordance with accounting principles generally accepted in the United States of America.

2. To consider the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

3. To perform tests of the Authority's compliance with laws, regulations, contracts, and grant agreements that may have a direct and material effect on the determination of financial statement amounts.

Scope of Audit

We performed an audit of the Authority's financial statements as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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P: 808.521.3962 | F: 808.531.3217 | www.kkdly.com

Organization of Report

This report has been organized into three parts as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.

2. The Financial Section includes management's discussion and analysis, the Authority's financial statements, and the related notes as of and for the year ended June 30, 2017, and our independent auditors' report thereon.

3. The Internal Control and Compliance Section contains our independent auditors' report on the Authority's internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

* * * * * * *

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

Very truly yours,

KKDLY LLC

SECTION II

FINANCIAL SECTION

Independent Auditors' Report

The Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Relationship to the State of Hawaii

As discussed in Note 1 to the financial statements, the financial statements of the Authority are intended to present the financial position, the changes in financial position and, where applicable, cash flows thereof of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter – Required Supplementary Information

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KKDLY LLC

Honolulu, Hawaii
December 7, 2017

Management of the Stadium Authority, State of Hawaii (the Authority) offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of Aloha Stadium as of and for the year ended June 30, 2017. This management's discussion and analysis is designed to assist the reader in focusing on the Authority's financial issues and activities to identify any significant changes in the Authority's financial position. The Authority encourages readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Overview of the Financial Statements

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

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

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Statement of Cash Flows

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

Notes to Financial Statements

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

Condensed Financial Information

The following are summaries from the Authority's financial statements as of and for the years ended June 30, 2017 and 2016 (in thousands):

	2017	2016
Net Position:		
Assets:		
Current and other assets	$ 4,883	$ 5,325
Capital assets, net	85,412	83,305
Total assets	90,295	88,630
Deferred outflows of resources related to pension	1,991	547
Liabilities:		
Current liabilities	1,057	1,135
Noncurrent liabilities	9,721	7,379
Total liabilities	10,778	8,514
Deferred inflows of resources related to pension	106	273
Net position:		
Investment in capital assets	85,412	83,305
Restricted	134	717
Unrestricted	(4,144)	(3,632)
Total net position	$ 81,402	$ 80,390
Changes in Net Position:		
Operating revenues:		
Rentals from attractions	$ 4,853	$ 4,499
Commissions from food and beverage concessionaire	1,018	980
Parking	1,013	924
Other	518	375
Total operating revenues	7,402	6,778
Operating expenses:		
Personnel services	(4,949)	(4,340)
Depreciation	(3,791)	(3,333)
Other	(2,963)	(3,085)
Total operating expenses	(11,703)	(10,758)
Operating loss	(4,301)	(3,980)
Nonoperating revenues (expenses):		
Loss on disposal of capital assets	(1,106)	-
Interest and investment income, net	28	26
Loss before capital contributions	(5,379)	(3,954)
Capital contributions	6,391	6,869
Change in net position	1,012	2,915
Net position at beginning of year	80,390	77,475
Net position at end of year	$ 81,402	$ 80,390

Financial Analysis

Current and other assets decreased by $442,000 or 8.3% from the previous fiscal year. The decrease is primarily due to the decrease in cash and cash equivalents of $385,000. Sponsorship fees previously received under an advertising agreement were used for the replacement of the Stadium's field.

Capital assets, net increased by $2,107,000 or 2.5% from the previous fiscal year. The increase is primarily due to the net increase in stadium structure of $12,108,000, which was offset by the decrease of construction in progress (CIP), which amounted to $7,329,000, and depreciation of capital assets, which amounted to $3,791,000. The Authority recorded a loss on disposal of capital assets of $1,106,000 related to the replacement of the Stadium's field. The Authority's investment in capital assets as of June 30, 2017 amounted to $85,412,000 (net of accumulated depreciation of $116,156,000). This investment in capital assets includes the stadium structure, land and land improvements, CIP, and equipment, furniture, and fixtures.

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

Deferred outflows of resources increased by $1,444,000 or 264.0% from the previous period. ***Deferred inflows of resources*** decreased by $167,000 or 61.2% from the previous year. The deferred outflows of resources related to pension are primarily attributable to changes in assumptions, the net difference between projected and actual earnings on pension plan investments, and contributions made subsequent to the measurement date of June 30, 2016. The deferred inflows of resources related to pension are primarily attributable to the differences between the expected and actual experience.

Current liabilities decreased by $78,000 or 6.9% from the previous fiscal year. Fluctuations in the current liabilities are due to normal business operations.

Noncurrent liabilities increased by $2,342,000 or 31.7% from the previous fiscal year. The increase is primarily due to an increase in the Authority's allocated share of the State of Hawaii's pension and postemployment liabilities of $2,060,000 and $216,000 respectively.

Net position increased by $1,012,000 or 1.3% from the previous fiscal year. The increase is due primarily to current year's capital contributions of $6,391,000, offset by current year's operating loss of $4,301,000.

By far, the largest portion of the Authority's net position ($85,412,000) reflects its investment in capital assets. The Authority uses these capital assets to provide services to the customers of Aloha Stadium; consequently, these assets are not available for future spending. An additional portion of the Authority's net position ($134,000) represents restricted resources that are restricted for the maintenance of the field in accordance with an advertising agreement. The remaining portion of the Authority's net position is unrestricted and reflects a deficit balance of $4,144,000, due primarily to the recording of the Authority's allocated share of the State's pension obligation.

Operating revenues increased by $624,000 or 9.2% from the previous fiscal year. The increase was mainly due to an increase in swap meet and parking revenues of $264,000 and $89,000, respectively.

Operating expenses increased by $945,000 or 8.8% from the previous fiscal year. The increase was due primarily to increases in personnel service and depreciation expenses of $609,000 and $458,000, respectively, offset by a decrease in professional services expense of $143,000.

Capital contributions decreased by $478,000 or 7.0% from the previous fiscal year. The decrease in capital contributions is primarily due to the completion of several CIP projects during the year, with no new significant CIP projects of Aloha Stadium improvements.

Requests for Information

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

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

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

Statement of Net Position

June 30, 2017

Assets:	
Current assets:	
Cash and cash equivalents (Notes 4, 7, and 8)	$ 4,225,229
Receivables from concessionaire and other, net (Note 7)	620,991
Total current assets	4,846,220
Capital assets, net (Note 5)	85,412,011
Cash and cash equivalents - held by other state agency (Note 4 and 8)	36,522
Total assets	90,294,753
Deferred Outflows of Resources:	
Deferred outflows related to pension (Note 6)	1,991,858
Liabilities:	
Current liabilities:	
Vouchers payable	226,978
Accrued payroll	335,651
Accrued vacation – due within one year (Note 6)	180,509
Workers compensation	179,251
Due to State General Fund for advances for Imprest Fund	30,000
Other (Note 7)	104,580
Total current liabilities	1,056,969
Net pension liability (Note 6)	6,080,439
Postemployment liability (Note 6)	3,243,653
Accrued vacation – due in more than one year (Note 6)	301,564
Licensees' deposits (Note 7)	95,829
Total liabilities	10,778,454
Deferred Inflows of Resources:	
Deferred inflows related to pension (Note 6)	106,475
Net Position:	
Investment in capital assets	85,412,011
Restricted (Note 8)	134,141
Unrestricted	(4,144,470)
Total net position	$ 81,401,682

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2017

Operating revenues:	
Rentals from attractions	$ 4,853,327
Commissions from food and beverage concessionaire	1,018,421
Parking	1,013,288
Advertising	391,202
Other	125,672
	7,401,910
Operating expenses:	
Personnel services (Note 6)	4,948,942
Depreciation (Note 5)	3,790,799
Utilities	1,052,952
Special fund assessments (Note 11)	499,207
Security	356,440
Repairs and maintenance	333,168
Professional services	254,780
Other	467,129
	11,703,417
Operating loss	(4,301,507)
Nonoperating revenues (expenses):	
Loss on disposal of capital assets (Note 5)	(1,106,424)
Interest and investment income (Note 4)	28,431
Loss before capital contributions	(5,379,500)
Capital contributions	6,390,574
Change in net position	1,011,074
Net position at beginning of year	80,390,608
Net position at end of year	$ 81,401,682

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year Ended June 30, 2017

Cash flows from operating activities:		
Cash received from customers	$	7,459,967
Cash paid to suppliers		(3,094,611)
Cash paid to employees		(4,164,906)
Net cash provided by operating activities		200,450
Cash flows from investing activities:		
Acquisition of capital assets		(613,741)
Interest and investment income		28,431
Net cash used in investing activities		(585,310)
Net decrease in cash and cash equivalents		(384,860)
Cash and cash equivalents at beginning of year		4,646,611
Cash and cash equivalents at end of year (including $36,522 held by other state agency)	$	4,261,751

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(4,301,507)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense		3,790,799
Increase in receivables from concessionaires and other		58,057
Change in deferred outflows, liabilities, and deferred inflows:		
Deferred outflows of resources		(1,444,114)
Vouchers payable		(6,056)
Accrued payroll		87,779
Accrued vacation		52,925
Workers compensation		(21,516)
Net pension liability		2,059,991
Postemployment liability		215,717
Licensees' deposits		23,859
Other		(148,738)
Deferred inflows of resources		(166,746)
Net cash provided by operating activities	$	200,450

Supplemental disclosure of noncash capital and related financing activity:		
Capital assets contributed	$	6,390,574
Netbook value of capital assets written off		1,106,424

See accompanying notes to financial statements.

(1) Financial Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority used in the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting policies:

Basis of Accounting

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

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

Cash and Cash Equivalents

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

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

Fair Value Measurements

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

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

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

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

Capital Assets

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

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

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

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

Deferred Outflows/Inflows of Resources

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

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

Compensated Absences

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

Net Position

Net position is classified in the following components: investment in capital assets, restricted, and unrestricted net position. Investment in capital assets consists of capital assets, net of accumulated depreciation. Restricted net position consists of funds subject to external restrictions on how they may be used. Unrestricted net position may be used to meet the Authority's ongoing obligations such as future operational expenses, replacement equipment, and personnel costs. The deficit balance in the unrestricted net position is due primarily to recording the net pension liability in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (Statement No. 68), and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68* (Statement No. 71), in the previous year (see note 6).

Capital Contributions

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

Pension

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

Recently Issued Accounting Pronouncements

GASB Statement No. 75

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will become effective for financial statements for the fiscal years beginning after June 15, 2017. This statement addresses accounting and financial reporting for OPEB plans that are provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

This statement replaces the requirements of GASB Statement No. 45 (Statement No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The Authority is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 82

The Authority adopted GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73,* effective July 1, 2016. This statement addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement did not have a significant effect on the Authority's financial statements.

GASB Statement No. 83

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

GASB Statement No. 85

The GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during the implementation and application of certain GASB statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The Authority is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this statement is to improve accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the lease agreements. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently evaluating the impact that this statement will have on its financial statements.

Use of Estimates

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

(3) Budgeting

The Authority's operations are subject to a comprehensive budget. Estimated revenues and expenses are provided to B&F for accumulation with budgeted amounts of the other state departments and offices. Those accumulated estimated revenues and expenses are provided to the State legislature for approval. Once approved by the legislature, the estimates are provided to the

Governor of the State for final approval. Budgeted revenues are estimates of rentals, commissions, and other revenues to be received during the year. Budgeted expenses are estimates of expenditures to be made.

(4) Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2017 consisted of the following:

Amounts held in State Treasury	$ 3,924,321
Cash in bank	288,152
Petty cash and change funds	12,756
	4,225,229
Held by other state agency	36,522
Total cash and cash equivalents	$ 4,261,751

Cash in Bank

At June 30, 2017, the carrying value of the Authority's cash in bank balance was $288,152 and the bank balance was $299,499.

Amounts Held in State Treasury

The State pools all excess funds into an investment pool that is administered by B&F and is used by various state departments and agencies, including the Authority. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury (investment pool). The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the pool participants based upon their equity interest in the pooled monies. Legally authorized investments are listed in the Hawaii Revised Statutes.

At June 30, 2017, amounts held in State Treasury by the Authority totaled $3,924,321. The amounts held in State Treasury reported in the accompanying statement of net position reflects the Authority's relative position in the State's investment pool based upon the average monthly investment balance of each participant in the investment pool.

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

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

	June 30, 2016			
		Fair Value Measurements Using		
	Reported Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government:				
Investments measured by fair value level:				
U.S. government securities	$ 2,079,266	$ 948,149	$ 1,131,117	$ -
Mutual funds	36,214	36,214	-	-
	2,115,480	$ 984,363	$ 1,131,117	$ -
Investments measured at amortized cost:				
Certificates of deposit	861,410			
Repurchase agreements	29,704			
Total investments	$ 3,006,594			
Fiduciary funds:				
Investments measured by fair value level:				
Equity securities	$ 303,129	$ 303,129	$ -	$ -
U.S. government securities	157,539	71,838	85,701	-
Mutual funds	104,809	104,809	-	-
	565,477	$ 479,776	$ 85,701	$ -
Investments measured by net asset value (NAV):				
Commingled funds:				
Domestic equity	294,662			
International equity	234,594			
Domestic core fixed income	175,886			
Domestic inflation-linked fixed income	199,848			
	1,470,467			
Investments measured at amortized cost:				
Certificates of deposit	65,266			
Repurchase agreements	2,250			
Total investments	$ 1,537,983			

Information relating to the fair value of investments in the State's investment pool at June 30, 2017 will be included in the State's CAFR when issued.

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

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

Debt Securities, Mutual Funds, and Commingled Funds

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

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

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

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

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

	Reported Value	Maturity (in years) Less than 1	1-5	>5
Primary government:				
Certificates of deposit	$ 861,410	$ 829,635	$ 31,775	$ -
U.S. government securities	2,079,266	997,545	1,073,773	7,948
Repurchase agreements	29,704	29,704	-	-
	2,970,380	$ 1,856,884	$ 1,105,548	$ 7,948
Mutual funds	36,214			
Total investments	$ 3,006,594			
Fiduciary funds:				
Certificates of deposit	$ 65,266	$ 62,859	$ 2,407	$ -
U.S. government securities	157,539	75,581	81,356	602
Repurchase agreements	2,250	2,250	-	-
	225,055	$ 140,690	$ 83,763	$ 602
Equity secuties	303,129			
Mutual funds	104,809			
Commingled funds	904,990			
Total investments	$ 1,537,983			

Information relating to the State's investment pool by maturity period at June 30, 2017 will be included in the State's CAFR when issued.

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

Concentration of Credit Risk

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

Foreign Currency Risk

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

(5) Capital Assets

At June 30, 2017, capital assets consisted of the following:

	Balance at June 30, 2016	Additions	Deductions	Transfers	Balance at June 30, 2017
Stadium structure	$ 163,890,066	$ -	$ (2,190,066)	$ 14,298,255	$ 175,998,255
Equipment, furniture and fixtures	3,595,018	35,458	(21,620)	-	3,608,856
	167,485,084	35,458	(2,211,686)	14,298,255	179,607,111
Less accumulated depreciation for:					
Stadium structure	(110,512,555)	(3,647,905)	1,083,642	-	(113,076,818)
Equipment, furniture, and fixtures	(2,958,371)	(142,894)	21,620	-	(3,079,645)
Total accumulated depreciation	(113,470,926)	(3,790,799)	1,105,262	-	(116,156,463)
Total depreciable capital assets, net	54,014,158	(3,755,341)	(1,106,424)	14,298,255	63,450,648
Land and land improvements	11,518,621	-	-	-	11,518,621
Construction in progress	17,772,140	6,968,857	-	(14,298,255)	10,442,742
Total capital assets, net	$ 83,304,919	$ 3,213,516	$ (1,106,424)	$ -	$ 85,412,011

Depreciation expense amounted to $3,790,799 for the fiscal year ended June 30, 2017.

(6) Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which includes the Authority, are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation.

Benefits Provided

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

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

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

Noncontributory Class

Retirement Benefits

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

Disability Benefits

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

Death Benefits

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

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

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits

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

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

Disability Benefits

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

Death Benefits

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

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

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

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

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

Disability and Death Benefits

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

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

Disability Benefits

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

Death Benefits

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

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

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits

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

Disability and Death Benefits

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

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2017 were 25.0% for police officers and firefighters, and 17.0% for all other employees. Contributions to the ERS from the Authority were $338,418 for the fiscal year ended June 30, 2017.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police and firefighters increases to 28.0% on July 1, 2017; 31.0% on July 1, 2018; 36.0% on July 1, 2019; and 41.0% on July 1, 2020, and the rate for all other employees increases to 18.0% on July 1, 2017; 19.0% on July 1, 2018; 22.0% on July 1, 2019; and 24.0% on July 1, 2020.

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

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

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

At June 30, 2017, the Authority reported a net pension liability of $6,080,439 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

At June 30, 2017, the Stadium's proportionate share of the State's net pension liability was .08%, which was equal to its proportionate share as of June 30, 2016.

There were significant changes in actuarial assumptions effective June 30, 2016 based on the Five-Year Experience Study report dated July 5, 2016, that resulted in a significant increase in the measurement of the total pension liability. Primary drivers for the increase include a decrease in the investment return assumption and discount rate from 7.65% as of June 30, 2015 to 7.00% as of June 30, 2016; and a decrease in the mortality assumptions for longer life expectancy and an explicit assumption for continued future mortality improvement (generational approach).

There were no other changes between the measurement date, June 30, 2016, and the reporting date, June 30, 2017, that are expected to have a significant effect on the Authority's proportionate share of the State's net pension liability.

For the year ended June 30, 2017, the Authority recognized pension expense of $792,042. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 338,418	$ -
Changes in assumptions	1,139,154	-
Differences between expected and actual experience	122,782	(87,161)
Changes in proportion and differences between contributions and proportionate share of contributions	20,358	(19,314)
Net difference between projected and actual earnings on pension plan investments	371,146	-
Total	$ 1,991,858	$ (106,475)

The $338,418 reported as deferred outflows of resources related to pension at June 30, 2017 resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at June 30, 2017 will be recognized in pension expense as follows:

Year Ended June 30:	
2018	$ 293,923
2019	293,923
2020	402,211
2021	355,802
2022	201,106
	$ 1,546,965

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

There were no changes to ad hoc postemployment benefits including COLA.

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

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

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

Strategic Allocation (Risk-based Classes)	Target Allocation	Long-term Expected Geometric Rate of Return
Broad growth	63.00%	8.35%
Principal protection	7.00%	2.20%
Real return	10.00%	6.15%
Crisis risk offset	20.00%	5.50%
	100.00%	

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, a decrease from the 7.65% rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State, which includes the Authority, will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (6.00%)	**Discount Rate (7.00%)**	**1% Increase (8.00%)**
Authority's proportionate share of the State's net pension liability	$ 7,742,909	$ 6,080,439	$ 4,655,682

Pension Plan Fiduciary Net Position

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

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

Postemployment Health Care and Life Insurance Benefits

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

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

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

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

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

Measurement of the actuarial valuation and the annual required contribution (ARC) is made for the State as a whole in accordance with Statement No. 45 and is not separately computed for the individual state departments and agencies such as the Authority. The actuarial valuation was performed as of July 1, 2015. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contributions for the year ended June 30, 2017 was $315,524, which represented 59% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of $531,241.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2017:

Balance at June 30, 2016	$ 3,027,936
Annual required contribution	531,241
Contributions made	(315,524)
Balance at June 30, 2017	$ 3,243,653

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Refer to the State's CAFR for the methods and assumptions used by the State, required footnote disclosures, and required supplementary information in accordance with the provisions of Statement No. 45.

Act 268, SLH 2013, requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund postemployment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014.

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

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

Deferred Compensation Plan

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

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

Accrued Vacation

Vacation pay earned by employees are accumulated at the rate of one and three-quarter working days for each month of service up to 720 hours at calendar year-end. The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2017:

Balance at June 30, 2016	$	429,148
Additions		192,061
Deletions		(139,136)
Balance at June 30, 2017		482,073
Less current portion		(180,509)
Noncurrent portion	$	301,564

Accrued Sick Leave

Full-time employees are credited with sick leave at a rate of one and three-quarter days per month of service. Unused sick leave may be accumulated without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave at June 30, 2017 amounted to approximately $1,482,000.

(7) Stadium Special Account

Contracts with licensees of the Authority and the related ticket sales are controlled in the Stadium Special Account. This account's cash balance and liabilities to third parties, net of amounts owed to the Authority, are included in the accompanying statement of net position and amounted to $270,908 at June 30, 2017. The activity in the account is included in the accompanying statement of revenues, expenses, and change in net position only as it relates to the Authority's rentals from attractions, expense reimbursements from users, and other miscellaneous transactions (i.e., excludes ticket sales proceeds held on behalf of the licensees).

(8) Advertising Agreement

Under terms of an advertising agreement, the Authority received sponsorship fees subject to external restrictions on how they may be used. The sponsorship fees must be used for the maintenance and replacement of the field and for travel subsidies for the University of Hawaii athletics program, as defined in the advertising agreement. The advertising agreement expired in December 2015. Upon the termination of the agreement, $1,350,000 was transferred to the Public

Works Division and $150,000 was disbursed to the University of Hawaii athletics program for travel subsidy. Unspent sponsorship fees aggregated to $134,141 as of June 30, 2017, and are included in cash and cash equivalents and cash held by other state agency, and are considered restricted net position in the accompanying statement of net position.

(9) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State purchases policies that provide coverage for all state entities, including the Authority. The State generally retains the first $1,000,000 per occurrence of property losses, the first $4,000,000 with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $200,000,000, except for terrorism, which is $50,000,000 per occurrence. The annual aggregate limit for general liability losses is $7,500,000 per occurrence and for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit. The State is generally self-insured for workers' compensation and automobile claims.

(10) Commitments and Contingencies

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

(11) Special Fund Assessments

In accordance with the HRS, the Authority has been assessed amounts to support the State's central administrative services. The assessments are based upon a percentage of the Authority's estimated revenues and expenses for the fiscal year. Assessments amounted to $499,207 for the fiscal year ended June 30, 2017.

(12) Subsequent Events

The Authority has evaluated subsequent events from the balance sheet date through December 7, 2017, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

KKDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

The Auditor
State of Hawaii:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated December 7, 2017.
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Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

KKDLY LLC

Honolulu, Hawaii
December 7, 2017