STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
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State Auditor

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DEPT. COMM. NO. 307

January 18, 2018

VIA HAND DELIVERY

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

RE: Audit of the Hawaiʻi Tourism Authority

Dear President Kouchi:

The financial audit report of the Hawaiʻi Tourism Authority for the fiscal year ending June 30, 2017, was issued on December 19, 2017. The Office of the Auditor retained CW Associates, A Hawaiʻi Certified Public Accounting Corporation, to perform the financial audit. For your information, we are attaching a copy of the two-page Auditor's Summary and the financial audit report.

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

http://files.hawaii.gov/auditor/Reports/2017_Audit/HTA2017.pdf and

http://files.hawaii.gov/auditor/Reports/2017_Audit/HTA_Summary_2017.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

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Enclosures

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

FINANCIAL STATEMENTS

June 30, 2017

(With Independent Auditor's Report Thereon)

CW Associates
A Hawaii Certified Public Accounting Corporation

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

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CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Office of 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, each major fund, and the aggregate remaining fund information of the Hawaii Tourism Authority (Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's 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 auditor's 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 opinions.

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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, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparisons 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 to the financial statements, the financial statements of the Authority are intended to present the financial position and the changes in financial position of only that portion of the component units of the State of Hawaii that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 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 which 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 19, 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 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 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.

CW Associates, CPAs

Honolulu, Hawaii
December 19, 2017

CW Associates
A Hawaii Certified Public Accounting Corporation

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2017

The Hawaii Tourism Authority (Authority) was established on January 1, 1999 by Act 156, Session Laws of Hawaii 1998. The Authority is responsible for developing and implementing a strategic tourism marketing plan to enhance and promote the tourism industry in the State of Hawaii (State). 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, 2017. This discussion and analysis is designed to assist the reader in focusing on the Authority's significant financial issues and activities and to identify any significant changes in the Authority's financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Overview of the Basic Financial Statements

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

Overview of the Basic Financial Statements (continued)

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 15 and 16 to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains three governmental funds (Tourism Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency 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.

Overview of the Basic Financial Statements (continued)

Condensed Financial Information

The following are summaries from the Authority's government-wide financial statements as of and for the years ended June 30, 2017 and 2016:

Condensed Statements of Net Position

As of June 30, 2017 and 2016

	2017	2016
Assets		
Current assets	$ 89,717,000	$ 83,045,000
Capital assets, net of depreciation	206,362,000	209,903,000
Investments – noncurrent	11,585,000	16,652,000
Other noncurrent assets	15,933,000	8,167,000
Total assets	323,597,000	317,767,000
Deferred outflows of resources	2,036,000	797,000
Total assets and deferred outflows of resources	$ 325,633,000	$ 318,564,000
Liabilities		
Current liabilities	$ 42,419,000	$ 33,361,000
Noncurrent liabilities	209,358,000	224,092,000
Total liabilities	251,777,000	257,453,000
Deferred inflows of resources	399,000	519,000
Net position		
Invested in capital assets, net of related debt	29,557,000	17,453,000
Restricted	43,900,000	43,139,000
Total net position	73,457,000	60,592,000
Total liabilities, deferred inflows of resources, and net position	$ 325,633,000	$ 318,564,000

Overview of the Basic Financial Statements (continued)

Condensed Financial Information (continued)

Condensed Statements of Activities

For the years ended June 30, 2017 and 2016

	2017	2016
Expenses		
Hawaii Convention Center management		
Contract	$ 15,544,000	$ 9,626,000
Interest on debt obligation to State Department of Budget and Finance	10,316,000	11,228,000
Depreciation	7,251,000	6,889,000
Payroll	350,000	369,000
Other	184,000	184,000
Pension	94,000	62,000
Administrative and general	11,000	10,000
Total Hawaii Convention Center management expenses	33,750,000	28,368,000
Tourism and marketing		
Contract	68,548,000	68,793,000
Payroll	2,462,000	2,465,000
Pension	647,000	435,000
Administrative and general	510,000	374,000
Other	135,000	259,000
Total tourism and marketing expenses	72,302,000	72,326,000
Total expenses	106,052,000	100,694,000
Revenues		
Program		
Charges for services	10,147,000	11,150,000
General		
Transient accommodations tax	108,500,000	108,500,000
Other	300,000	445,000
Total revenues	118,947,000	120,095,000
Transfers	(30,000)	5,000,000
Change in net position	12,865,000	24,401,000
Net position – beginning of year	60,592,000	36,191,000
Net position – end of year	$ 73,457,000	$ 60,592,000

Overview of the Basic Financial Statements (continued)

Financial Analysis

Current Assets increased by approximately $6,672,000, or 8%, primarily due to an increase in cash of approximately $7,518,000, partially offset by a decrease in other current assets of approximately $1,121,000. Cash is primarily available for current contracts. Other current assets consists of prepaid expenses and unspent funds held by Anschutz Entertainment Group (AEG) and the Department of Accounting and General Services (DAGS) for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects for the Hawaii Convention Center (Center) that are expected to be expended in the subsequent year.

Capital Assets decreased by approximately $3,541,000, or 2%, primarily due to the recording of current year depreciation expense of approximately $7,251,000, partially offset by an increase of approximately $3,946,000 in construction in progress relating to improvements at the Center and other capital asset purchases. A substantial portion of the Authority's capital asset additions pertains to renovations and improvements to the Center. See Note 5 to the financial statements.

Investments decreased by approximately $5,067,000, or 30%, due to the maturity of investments.

Other Noncurrent Assets increased by approximately $7,766,000, or 95%. This represents unspent funds held by AEG and DAGS for emergency capital improvements, repair or maintenance purchases, and funds earmarked for various capital improvement projects for the Center.

Current Liabilities increased by approximately $9,058,000, or 27%, primarily due to an increase in vouchers payable of approximately $2,238,000 resulting from the timing of cost incurrence and payments and an increase in current amounts due to the State Department of Budget and Finance (Budget and Finance) of approximately $6,896,000. 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 decreased by approximately $14,734,000, or 7%, primarily due to a decrease in amounts due to Budget and Finance subsequent to the ensuing year.

Net position went from a net position of approximately $60,592,000 at June 30, 2016 to a net position of approximately $73,457,000 at June 30, 2017 due to the operating results of the Authority.

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 is appropriated by the Legislature from general funds. The Authority's statutorily required Reimbursable General Obligation payments are funded by an allocated portion of the State's transient accommodations tax (TAT) revenue and revenue generated from the operation of the Center.

Overview of the Basic Financial Statements (continued)

Financial Analysis (continued)

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

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

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

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

There is no dispute that from June 30, 2000 to July 1, 2002, the TAT receipts intended for debt service, which prior to July 1, 2000 was allocated to the Convention Center Authority (Chapter 206X, HRS), and subsequent to June 30, 2002 to the Authority (pursuant to HRS Section 237D), were being collected and received by the General Fund. During this period, debt service to bondholders was made. What was disputed was whether the Authority was obligated to reimburse Budget and Finance for the debt service payments made during the period from July 1, 2000 to June 30, 2002.

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

Overview of the Basic Financial Statements (continued)

Financial Analysis (continued)

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

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

Expenses increased by approximately $5,358,000, or 5%, primarily due to an increase in contract expenses in the current year as compared to the prior fiscal year. Contract expenses increased primarily due to investing approximately $2,137,000 more towards the sales and marketing of the Center in the current fiscal year and the return of approximately $2,377,000 in unspent funds from AEG in the prior fiscal year.

Revenues decreased by approximately $1,148,000, or 1%, primarily due to a decrease in program revenues of approximately $1,003,000.

Financial Analysis of the Authority's Individual Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of approximately $75,319,000, a decrease of approximately $4,364,000 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.

Financial Analysis of the Authority's Individual Funds (continued)

Governmental Funds (continued)

The Tourism Special Fund is used to account for functions related to the development and promotion of the tourism industry. At the end of the current fiscal year, committed fund balance of the Tourism Special Fund was approximately $64,982,000, an increase of 9% from the prior fiscal year. As a measure of the Tourism Special Fund's liquidity, it may be useful to compare committed fund balance to total fund expenditures. Committed fund balance represents 90% of total Tourism Special Fund expenditures, an increase of 7% from the prior fiscal year.

The Convention Center Enterprise Special Fund was established by Act 253, Session Laws of Hawaii 2002 (Act 253) to receive all revenues generated from the operation of the 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. 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 $5,337,000.

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.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, the Authority had approximately $206,362,000 invested in capital assets as shown in the following table. There was a net decrease (additions, disposals, and depreciation) of approximately $3,541,000 from the end of the prior fiscal year.

	2017	2016
Capital assets		
Land	$ 131,497,000	$ 131,497,000
Buildings and improvements	211,528,000	211,528,000
Furniture, fixtures, and equipment	5,440,000	4,407,000
Construction in progress	5,305,000	2,645,000
Total capital assets	353,770,000	350,077,000
Less accumulated depreciation	147,408,000	140,174,000
Total capital assets, net	$ 206,362,000	$ 209,903,000

Capital Asset and Debt Administration (continued)

Capital Assets (continued)

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

Indebtedness

As of June 30, 2017, the Authority had approximately $234,761,000 of amounts due to Budget and Finance compared to approximately $244,444,000 as of June 30, 2016, which represents a decrease of 4% from prior year. Additional information regarding the Authority's indebtedness can be found in Note 8 to the financial statements.

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

STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES

As of June 30, 2017

Current assets	
Cash and cash equivalents	$ 81,721,507
Due from Hawaii Convention Center	567,170
Other current assets	7,428,206
Total current assets	89,716,883
Noncurrent assets	
Investments	11,585,475
Capital assets	
Land	131,496,508
Construction in progress	5,304,999
Other capital assets, net	69,560,616
Capital assets, net of depreciation	206,362,123
Other noncurrent assets	15,932,647
Total noncurrent assets	233,880,245
Total assets	323,597,128
Deferred outflows of resources related to pensions	2,035,832
Total assets and deferred outflows of resources	$ 325,632,960
Current liabilities	
Vouchers payable	$ 7,787,030
Due to State Department of Budget and Finance	34,359,993
Accrued payroll	146,722
Accrued vacation	124,964
Total current liabilities	42,418,709
Long-term liabilities	
Accrued vacation, net of current position	219,883
Postemployment liability	2,430,933
Pension liability, net	6,306,674
Due to State Department of Budget and Finance, net of current portion	200,400,724
Total long-term liabilities	209,358,214
Total liabilities	251,776,923
Deferred inflows of resources related to pensions	399,360
Total liabilities and deferred inflows of resources	252,176,283
Net position	
Net investment in capital assets	29,556,834
Restricted	43,899,843
Total net position	73,456,677
Total liabilities and net position	$ 325,632,960

See accompanying notes to the financial statements.

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

STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES

For the Year Ended June 30, 2017

	Functional Programs		
	Hawaii Convention Center Management	Tourism and Marketing	Total
Expenses			
Contract	$ 15,543,910	$ 68,547,444	$ 84,091,354
Interest on debt obligation to State Department of Budget and Finance	10,316,267	-	10,316,267
Depreciation	7,251,276	-	7,251,276
Payroll	350,283	2,462,169	2,812,452
Pension	93,830	647,172	741,002
Administrative and general	10,378	510,208	520,586
Other	183,958	134,983	318,941
Total expenses	$ 33,749,902	$ 72,301,976	106,051,878
Program revenues – charge for services			10,146,503
Net expenses			95,905,375
General revenues			
Transient accommodations tax			108,500,000
Interest			316,021
Net decrease in the fair value of investments			(52,725)
Other			37,248
Total general revenues			108,800,544
Transfers to others			(30,000)
Change in net position			12,865,169
Net position at June 30, 2016			60,591,508
Net position at June 30, 2017			$ 73,456,677

See accompanying notes to the financial statements.

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

BALANCE SHEET – GOVERNMENTAL FUNDS

As of June 30, 2017

	Tourism Special Fund	Convention Center Enterprise Special Fund	Tourism Emergency Special Fund	Total Governmental Funds
Assets				
Cash in bank	$ 61,889,363	$ 15,930,054	$ 3,902,090	$ 81,721,507
Investments	8,488,985	1,998,580	1,097,910	11,585,475
Due from Hawaii Convention Center	-	567,170	-	567,170
Other assets	865,705	3,111	-	868,816
Total assets	$ 71,244,053	$ 18,498,915	$ 5,000,000	$ 94,742,968
Liabilities				
Vouchers payable	$ 6,130,318	$ 290,833	$ -	$ 6,421,151
Due to State Department of Budget and Finance	-	12,856,534	-	12,856,534
Accrued wages and employee benefits payable	131,753	14,969	-	146,722
Total liabilities	6,262,071	13,162,336	-	19,424,407
Fund balances				
Committed	64,981,982	5,336,579	5,000,000	75,318,561
Total fund balances	64,981,982	5,336,579	5,000,000	75,318,561
Total liabilities and fund balances	$ 71,244,053	$ 18,498,915	$ 5,000,000	
Amounts reported in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				206,362,123
Difference between accounting for amounts held by AEG and DAGS for future capital expenditures in the statement of net position and in the governmental funds.				22,492,037
Vouchers payable for accrual of construction in progress for capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				(1,365,879)
Long-term liabilities, including unmatured debt obligation to the State Department of Budget and Finance, are not due and payable in the current period and, therefore, are not reported in the governmental funds.				(176,805,289)
Accrued interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the governmental funds.				(45,098,894)
Accrued vacation, postemployment liability, and net pension liability reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in the governmental funds.				(9,082,454)
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported in governmental funds.				1,636,472
Net position of governmental activities				$ 73,456,677

See accompanying notes to the financial statements.

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2017

	Tourism Special Fund	Convention Center Enterprise Special Fund	Tourism Emergency Special Fund	Total Governmental Funds
Revenues				
Transient accommodations tax	$ 82,000,000	$ 26,500,000	$ -	$ 108,500,000
Hawaii Convention Center operations	-	10,146,503	-	10,146,503
Interest	250,679	65,341	-	316,020
Net increase in the fair value of investments	(45,633)	(7,092)	-	(52,725)
Other	37,247	-	-	37,247
Total revenues	82,242,293	36,704,752	-	118,947,045
Expenditures				
Contract expenditures	68,547,445	24,416,272	-	92,963,717
Interest on debt obligation to State Department of Budget and Finance	-	26,430,617	-	26,430,617
Personnel	2,661,826	385,922	-	3,047,748
Administrative and general	510,208	10,378	-	520,586
Other	134,983	183,958	-	318,941
Total expenditures	71,854,462	51,427,147	-	123,281,609
Excess (deficiency) of revenues over expenditures	10,387,831	(14,722,395)	-	(4,334,564)
Other financing sources (uses)				
Transfers in (out)	(5,069,433)	5,069,433	-	-
Transfers to others	(30,000)	-	-	(30,000)
Total other financing sources (uses)	(5,099,433)	5,069,433	-	(30,000)
Excess of revenues over expenditures and other financing sources (uses)	5,288,398	(9,652,962)	-	(4,364,564)
Fund balances at June 30, 2016	59,693,584	14,989,541	5,000,000	
Fund balances at June 30, 2017	$ 64,981,982	$ 5,336,579	$ 5,000,000	

Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital expenditures for the year.	(4,906,716)
Difference between accounting for cash paid to AEG and DAGS for future capital expenditures in the statement of activities and in the governmental funds.	6,527,803
Repayment of debt obligation principal is an expenditure in the government funds, but the payment reduces long-term liabilities in the statement of net position.	15,645,000
Difference between accounting for interest expense in the statement of activities and in the governmental funds.	469,350
Accrued vacation, postemployment liability and net pension liability reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(505,704)
Change in net position	$ 12,865,169

See accompanying notes to the financial statements.

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

STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (BUDGETARY BASIS) – TOURISM SPECIAL FUND, CONVENTION CENTER ENTERPRISE SPECIAL FUND, AND TOURISM EMERGENCY SPECIAL FUND

For the Year Ended June 30, 2017

	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	$ 89,984,299	$ 89,984,299	$ 82,000,000	$ (7,984,299)	$ 26,500,000	$ 26,500,000	$ 26,500,000	$ -
Hawaii Convention Center Operations	-	-	-	-	19,542,752	19,542,752	10,301,098	(9,241,654)
Interest	-	-	157,927	157,927	-	-	54,964	54,964
Other	-	-	37,247	37,247	-	-	-	-
Total revenues	89,984,299	89,984,299	82,195,174	(7,789,125)	46,042,752	46,042,752	36,856,062	(9,186,690)
Expenditures	89,984,299	89,984,299	78,824,068	(11,160,231)	51,342,752	51,342,752	41,445,829	(9,896,923)
Excess (deficiency) of revenues over expenditures	-	-	3,371,106	3,371,106	(5,300,000)	(5,300,000)	(4,589,767)	710,233
Other financing sources	-	-	(30,000)	(30,000)	5,300,000	5,300,000	5,069,433	(230,567)
Excess of revenues over expenditures and other financing sources (uses)	$ -	$ -	$ 3,341,106	$ 3,341,106	$ -	$ -	$ 479,666	$ 479,666

(Continued)

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

STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (BUDGETARY BASIS) – TOURISM SPECIAL FUND, CONVENTION CENTER ENTERPRISE SPECIAL FUND, AND TOURISM EMERGENCY SPECIAL FUND (Continued)

For the Year Ended June 30, 2017

	Tourism Emergency Special Fund			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance- Favorable (Unfavorable)
Revenues				
Transient accommodations tax	$ -	$ -	$ -	$ -
Hawaii Convention Center Operations	-	-	-	-
Interest	-	-	-	-
Other	-	-	-	-
Total revenues	-	-	-	-
Expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other financing sources	-	-	-	-
Excess of revenues over expenditures and other financing sources (uses)	$ -	$ -	$ -	$ -

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Hawaii Tourism Authority (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). The following is a summary of the more significant accounting and presentation policies used in the preparation of such financial statements.

(a) The Financial Reporting Entity

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

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

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

(b) Government-Wide and Fund Financial Statements

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

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

(1) Summary of Significant Accounting Policies (continued)

(b) Government-Wide and Fund Financial Statements (continued)

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

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

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

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

The government-wide statement of net position as of June 30, 2017 reports restricted net position of $43,899,843, which is restricted by enabling legislation with oversight by the Authority's board of directors.

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.

(1) Summary of Significant Accounting Policies (continued)

(c) Basis of Accounting

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

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

(d) Transient Accommodations Tax

In accordance with Sections 201B-11 and 237D-6.5, Hawaii Revised Statutes (HRS), the primary source of funding for the Authority's Tourism Fund and Convention Center Fund is the transient accommodations tax (TAT) collected by the State. The TAT is assessed at a rate of 9.25% (10.25% effective January 1, 2018) on the gross rental proceeds derived from providing transient accommodations.

Effective July 1, 2015, the maximum amount of funding of TAT revenues that may be deposited into the Convention Center Fund and the Tourism Fund is $26,500,000 and $82,000,000, respectively.

Of the total TAT revenues deposited into the Tourism Fund, 0.5% is allocated to a subaccount in the Tourism Fund to provide funding for the safety and security budget, pursuant to Section 237D-6.5; and beginning July 1, 2007, funds shall be deposited into the Emergency Fund, established in Section 201 B-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.

(1) Summary of Significant Accounting Policies (continued)

(e) Investments

Investments are reported at fair value within the fair value hierarchy established by GAAP. Investments in U.S. government obligations and U.S. federal agency obligations are reported at fair value based on quoted prices or other observable inputs, including pricing matrices.

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.

The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(1) Summary of Significant Accounting Policies (continued)

(f) Capital Assets

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

(g) Accrued Vacation

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

(h) Pensions

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

(1) Summary of Significant Accounting Policies (continued)

(i) 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

(j) 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. The Authority's contract with AEG extends through December 31, 2018. The management fees paid to AEG for the year ended June 30, 2017 amounted to $423,400.

(k) Intrafund and Interfund Transactions

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

(l) Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such differences will occur within the near term.

(1) Summary of Significant Accounting Policies (continued)

(m) Recently Adopted Accounting Standards

GASB Statement No. 73

The GASB issued Statement 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 establishes accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, and for the assets accumulated for purposes of providing those pensions. This Statement has no impact on the Authority's financial statements.

GASB Statement No. 74

During the year ended June 30, 2017, the Authority implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. This Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended. This Statement addresses the financial reports of defined benefit other postemployment benefit plans that are administered through trusts that meet specified criteria. This Statement had a material effect on the Authority's OPEB Trust Fund.

GASB Statement No. 75

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. This Statement will require governments to report a liability on the face of the financial statements for the other postemployment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Authority has determined that Statement No. 75 will have a material effect on its financial statements.

GASB Statement No. 77

During the year ended June 30, 2017, the Authority implemented GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about the nature and magnitude of the tax abatements. This Statement has no impact on the Authority's financial statements.

(1) Summary of Significant Accounting Policies (continued)

(m) Recently Adopted Accounting Standards (continued)

GASB Statement No. 78

The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of GASB Statement No. 68, to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension that meet certain requirements. This Statement has no impact on the Authority's financial statements.

GASB Statement No. 80

During the year ended June 30, 2017, the Authority implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement amends the blending requirements in GASB Statement No. 14. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. This Statement has no impact on the Authority's financial statements.

GASB Statement No. 81

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement has no impact on the Authority's financial statements.

GASB Statement No. 82

During the year ended June 30, 2017, the Authority implemented GASB Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement did not have a material effect on the Authority's financial statements.

(1) Summary of Significant Accounting Policies (continued)

(m) Recently Adopted Accounting Standards (continued)

GASB Statement No. 83

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* The objective of this Statement is to provide 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 has not yet determined the effect this Statement will have on its 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. 85

The GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during 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 Statement No. 85 will have on its financial statements.

GASB Statement No. 86

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Authority is currently evaluating the impact Statement No. 86 will have on its financial statements.

(1) Summary of Significant Accounting Policies (continued)

(m) Recently Adopted Accounting Standards (continued)

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 payment 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.

(2) Budgeting and Budgetary Control

The budget of the Authority is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) – Tourism Fund, Convention Center Fund, and Emergency 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 Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency Special 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, 2017, there were no expenditures in excess of appropriations at the legal level of budgetary control.

(2) Budgeting and Budgetary Control (Continued)

To the extent not expended or encumbered, Tourism Special 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 Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency Special Fund are presented in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – Tourism Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency Special Fund. The Authority's annual budget is prepared on the modified-accrual basis of accounting with several differences, principally related to (1) encumbrance of purchase orders and contract obligations and (2) accrued expenditures.

A reconciliation of the budgetary to GAAP basis operating results of the Tourism Special Fund, Convention Center Enterprise Special Fund, and Tourism Emergency Special Fund for the fiscal year ended June 30, 2017 is as follows:

	Tourism Special Fund	Convention Center Enterprise Special Fund	Tourism Emergency Special Fund
Excess of revenues over expenditures and other financing sources (uses) – budgetary basis	$ 3,341,106	$ 479,666	$ -
Reserved for encumbrances	44,294,863	1,825,090	-
Expenditures for liquidation of prior fiscal year encumbrances	(41,918,748)	(5,081,320)	-
Net accrued revenues and expenditures	(428,823)	(6,876,398)	-
Excess of revenues over expenditures and other financing sources (uses) – GAAP basis	$ 5,288,398	$ (9,652,962)	$ -

(3) Cash

(a) Cash in Bank

The Authority requires that the financial institutions pledge collateral based on the daily available bank balances. All securities pledged as collateral are held by the Authority's fiscal agents in the name of the Authority. At June 30, 2017, the Authority's deposits with the financial institution totaled $81,721,507 and had a corresponding bank balance of $81,916,113.

(b) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2017, the Authority's custodial risk resulting from uninsured and uncollateralized amounts totaled $45,794,244 at June 30, 2017.

(4) Investments

At June 30, 2017, the fair value measurements reportable by the Authority consisted of investments in U.S. government obligations and U.S. federal agency 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, 2017:

		Fair Value Measurements Using		
	Fair Value at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Tourism Fund				
U.S. Federal agency notes	$ 8,488,985	$ 8,488,985	$ -	$ -
Convention Center Fund				
U.S. Federal agency notes	1,998,580	1,998,580	-	-
Emergency Funds				
U.S. Federal agency notes	1,097,910	1,097,910	-	-
Total Authority's investments	$ 11,585,475	$ 11,585,475	$ -	$ -

The following table presents the Authority's investments by maturity period at June 30, 2017:

			Maturity (in years)	
Investment type	Fund	Fair Value	Less than 1	1-5
U.S. Federal agency notes	Tourism Fund	$ 8,488,985	$ 8,488,985	$ -
U.S. Federal agency notes	Convention Center Fund	1,998,580	1,998,580	-
U.S. Federal agency notes	Emergency Fund	1,097,910	298,974	798,936
Total Authority's investments		$ 11,585,475	$ 10,786,539	$ 798,936

(4) Investments (Continued)

(a) Interest Rate Risk

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

(b) Credit Risk

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

(c) Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Authority or the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's and the State's investments are held at broker/dealer firms that are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. 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 THE FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2017

(5) Capital Assets

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

	Balance at 6/30/2016	Additions	Deductions	Balance at 6/30/2017
Capital assets not being depreciated				
Land	$131,496,508	$ -	$ -	$131,496,508
Construction in progress	2,644,686	2,660,313	-	5,304,999
Total capital assets not being depreciated	134,141,194	2,660,313	-	136,801,507
Other capital assets				
Buildings and improvements	211,528,761	248,114	(248,114)	211,528,761
Furniture, fixtures, and equipment	4,406,921	1,037,720	(5,104)	5,439,537
Total other capital assets	215,935,682	1,285,834	(253,218)	216,968,298
Less accumulated depreciation for				
Buildings and improvements	136,152,594	7,063,364	(12,406)	143,203,552
Furniture, fixtures, and equipment	4,021,322	187,912	(5,104)	4,204,130
Total accumulated depreciation	140,173,916	7,251,276	(17,510)	147,407,682
Total capital assets, net	$209,902,960	$(3,305,129)	$(235,708)	$206,362,123

Depreciation expense charged to the Hawaii Convention Center management function amounted to $7,251,276 for the fiscal year ended June 30, 2017. At June 30, 2017, vouchers payable include $1,365,879 in accrued additions to construction in progress.

(6) Other Assets

Other assets represent unspent funds held by AEG and the Department of Accounting and General Services (DAGS) for emergency capital improvements, repair or maintenance purchases, and various capital improvement projects. At June 30, 2017, unspent funds amounted to $22,492,037.

(7) Accrued Vacation

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2017:

Balance at June 30, 2016	$ 298,694
Additions	173,973
Deletions	(127,820)
Balance at June 30, 2017	344,847
Less current portion	(124,964)
Total accrued vacation, long-term	$ 219,883

(8) Due to State Department of Budget and Finance

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

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

The creation of the Convention Center Fund provided the Authority the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the Authority by the CCA. The terms of the payment plan require the Authority to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. The payment plan is not directly related to the actual debt service on the general obligation bonds issued to finance the Center. The Authority's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2017, the outstanding principal and aggregate interest amounts required to be reimbursed by the Authority were $176,805,289 and $87,488,870, respectively.

(8) Due to State Department of Budget and Finance (continued)

The scheduled payments to maturity for each of the next five years and thereafter in five year increments are as follows:

	Principal	Interest	Total
Years ending June 30th			
2018	$ 16,580,000	$ 9,846,917	$ 26,426,917
2019	17,575,000	8,852,117	26,427,117
2020	18,630,000	7,797,617	26,427,617
2021	19,750,000	6,679,817	26,429,817
2022	20,935,000	5,494,817	26,429,817
2023-2027	83,335,289	48,817,585	132,152,874
Total	$ 176,805,289	$ 87,488,870	$ 264,294,159

For the year ended June 30, 2017, the Authority was required to reimburse Budget and Finance $26,430,617 for principal and interest. For the year ended June 30, 2017, the Authority recorded $10,316,267 of interest expense on the debt obligation to the Budget and Finance in the statement of activities. At June 30, 2017, the statement of net position reflected the total long-term liabilities of the Authority as follows:

Matured interest	$ 12,856,534
Unmatured current interest	4,923,459
Unmatured current principal	16,580,000
Current portion	34,359,993
Unmatured current principal	160,225,289
Unmatured current interest	40,175,435
Noncurrent portion	200,400,724
Total	$ 234,760,717

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

June 30, 2016	$ 244,444,450
Additions	10,316,267
Reductions	(20,000,000)
June 30, 2017	$ 234,760,717

(9) Employee Benefits

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

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

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

Benefits Provided

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

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

(9) Employee Benefits (continued)

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

Contributions

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

Contributory

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

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

Hybrid

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

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

(9) Employee Benefits (continued)

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

Contributions (continued)

Noncontributory

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

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

The required pension contributions by the Authority for the years ended June 30, 2017, 2016, and 2015 were $316,549, $316,723, and $363,990, respectively, which equal the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Authority.

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

The Authority's proportionate share of the State's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State allocates the net pension liability to the various departments and agencies based upon a systematic methodology. At June 30, 2017, the Authority's proportionate share of the net pension liability is $6,306,674.

(9) Employee Benefits (continued)

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

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

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2016, and the reporting date, June 30, 2017, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2017, the Authority recognized pension expense of $628,889. At June 30, 2017, 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	$ 117,069	$ (104,149)
Changes of assumptions	1,020,416	-
Net difference between projected and actual earnings on pension plan investments	562,642	(272,107)
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	19,156	(23,104)
The Authority's contributions subsequent to the measurement date	316,549	-
Total	$ 2,035,832	$ (399,360)

(9) Employee Benefits (continued)

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

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

The $316,549 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30th	
2018	$ 255,426
2019	$ 255,426
2020	$ 346,223
2021	$ 302,214
2022	$ 160,634

Actuarial Assumptions

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

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return, including inflation at 3.00%	7.00%

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates their experience studies every five years.

(9) Employee Benefits (continued)

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

Actuarial Assumptions (continued)

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

Strategic Allocation (risk-based classes)	Target Allocation	Long-Term Expected Real Rate of Return
Broad growth	63.0%	8.35%
Principal protection	7.0%	2.20%
Real return	10.0%	6.15%
Crisis risk offset	20.0%	5.50%
Total Investments	100.00%	

Discount Rate

The discount rate used to measure the net pension liability was 7.00%. 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. There has been no change in the discount rate since the prior measurement date.

(9) Employee Benefits (continued)

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

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

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.00%, 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 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease (6%)	Discount Rate (7%)	1% Increase (8%)
The Authority's proportionate share of the net pension liability	$ 6,775,046	$ 6,306,674	$ 4,073,721

Pension Plan Fiduciary Net Position

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

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

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

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

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits

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

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

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

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

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

The State pays the EUTF a base monthly contribution (currently $4.12) for each retired employee enrolled in the EUTF group life insurance plan.

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

(9) Employee Benefits (continued)

(b) Postemployment Healthcare and Life Insurance Benefits (continued)

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the Authority. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contribution for the year ended June 30, 2017 was $295,134, which represented 89% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of $330,232.

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

Balance at June 30, 2016	$ 2,395,835
Additions	330,232
Deletions	(295,134)
Balance at June 30, 2017	$ 2,430,933

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

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

(10) Commitments and Contingencies

(a) Accumulated Sick Leave Pay

Employees hired on or before July 1, 2001 earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn sick leave credit at the rate of one and one-quarter or one and three-quarters working days for each month of service depending upon the employees' years of service and job classification. Sick leave credits may accumulate without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2017, accumulated sick leave was $680,667 for the Authority.

(b) Deferred Compensation Plan

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

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

(c) Legal Contingencies

The Authority may be subject to legal proceedings, claims, and litigation arising in the ordinary course of business 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.

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S 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 Board of Directors
Hawaii Tourism Authority:

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawaii Tourism Authority (Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2017, 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 19, 2017.

Internal Control over Financial Reporting

The management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Authority's 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 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 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 the 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 significant deficiencies or material weaknesses. 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 of 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 report is not suitable for any other purpose.

CW Associates, CPAs

Honolulu, Hawaii
December 19, 2017

Auditor’s Summary

Financial Audit of the Hawai‘i Tourism Authority

Financial Statements, Fiscal Year Ended June 30, 2017

PHOTO: HAWAII TOURISM AUTHORITY / TOR JOHNSON

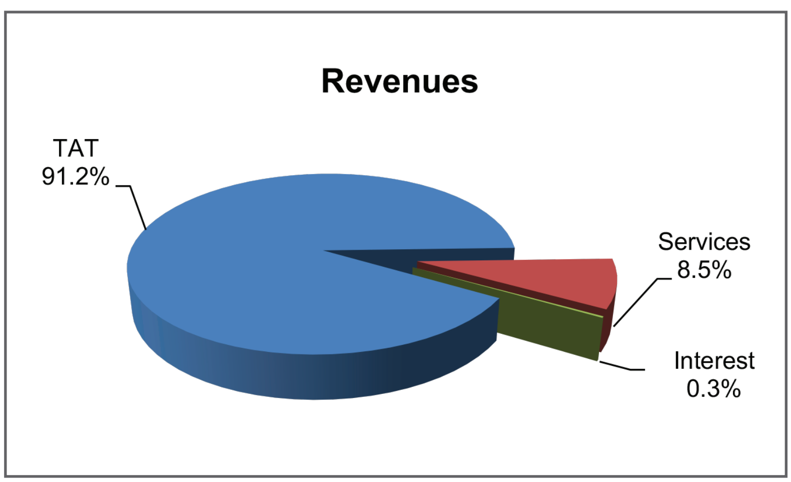
THE PRIMARY PURPOSE *of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Hawai‘i Tourism Authority (HTA), as of and for the fiscal year ended June 30, 2017. The audit was conducted by CW Associates, A Hawai‘i Certified Public Accounting Corporation.*

About the Authority

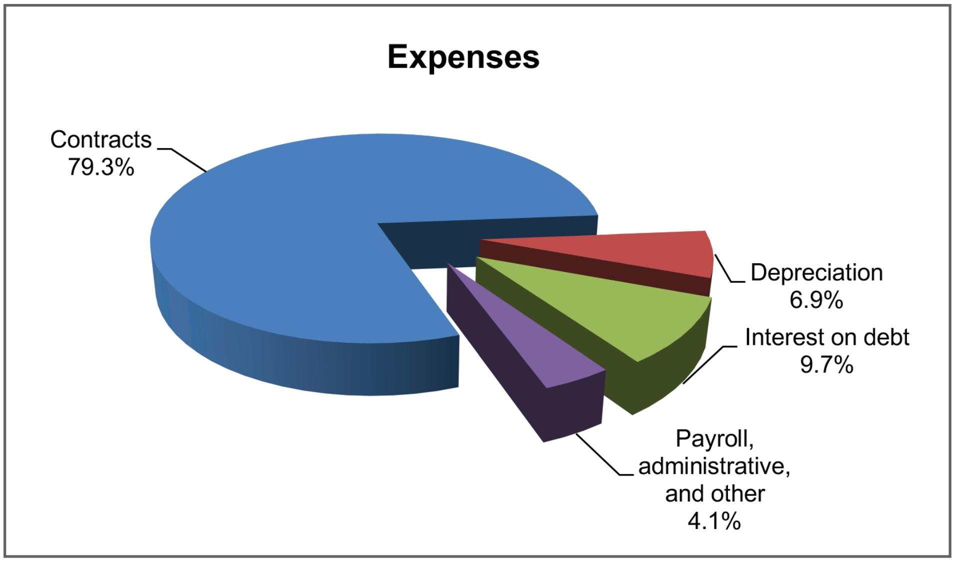
HTA IS RESPONSIBLE for developing and implementing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State’s tourism industry, employment, taxes, and lesser known and underutilized destinations. 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 was placed within the Department of Business, Economic Development and Tourism for administrative purposes.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2017, HTA reported total revenues of $118.9 million and total expenses and transfers of $106.1 million. Revenues consisted of $108.5 million from TAT, $10.1 million from charges for services, and interest of $300,000.



Total expenses of $106.1 million consisted of $84.1 million for contracts, $10.3 million for interest on debt obligations, $7.3 million for depreciation, and $4.4 million for payroll, administrative and other costs.



As of June 30, 2017, total assets and deferred outflows of resources of $325.7 million exceeded total liabilities and deferred inflows of resources of $252.2 million by $73.5 million. Total assets included cash of $81.7 million, investments of $11.6 million, land and net capital assets of $206.4 million, and other assets of $26 million. Total liabilities included amounts due to the Department of Budget and Finance for general obligation bonds and accrued interest of $234.8 million and other liabilities of $17.4 million. The amounts due to the State are related to the construction of the Hawai'i Convention Center and the bonds are general obligations of the State, which are secured by the State's full faith and credit. The debt service payments are to be primarily funded by an allocated portion of TAT and revenue generated by the Hawai'i Convention Center.

Auditors' Opinion

HTA 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/HTA2017.pdf