



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

Financial Statements
(With Independent Auditors' Report)

June 30, 2014

Submitted by
THE AUDITOR
STATE OF HAWAII

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

Financial Statements

June 30, 2014

Table of Contents

| | Page |
|---|-------------|
| I. Introduction Section | |
| Audit Objectives | 1 |
| Scope of Audit | 1 |
| Organization of Report | 2 |
| II. Financial Section | |
| Independent Auditors' Report | 3 |
| Management's Discussion and Analysis | 5 |
| Financial Statements: | |
| Statement of Net Position – June 30, 2014 | 9 |
| Statement of Revenues, Expenses, and Changes in Net Position – Year ended June 30, 2014 | 10 |
| Statement of Cash Flows – Year Ended June 30, 2014 | 11 |
| Notes to Financial Statements | 12 |
| III. Internal Control and Compliance Section | |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 24 |

SECTION I
INTRODUCTION SECTION

December 5, 2014

The Auditor
State of Hawaii:

We have completed our audit of the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, as of and for the year ended June 30, 2014, as listed in the table of contents. We transmit herewith our reports containing our opinion on those financial statements and our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Audit Objectives

The objectives of the audit were as follows:

1. To provide an opinion on the fair presentation of the Authority's financial statements in accordance with accounting principles generally accepted in the United States of America.
2. To consider the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.
3. To perform tests of the Authority's compliance with laws, regulations, contracts, and grants that may have a direct and material effect on the determination of financial statement amounts.

Scope of Audit

We performed an audit of the Authority's financial statements as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of the audit of the Authority's financial statements, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also considered the Authority's system of internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

Organization of Report

This report has been organized into three parts as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.
2. The Financial Section includes management's discussion and analysis, and the Authority's financial statements and the related notes as of and for the year ended June 30, 2014, and our independent auditors' report thereon.
3. The Internal Control and Compliance Section contains our report on the Authority's internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

* * * * *

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

Very truly yours,

KKDL Y LLC

SECTION II
FINANCIAL SECTION

Independent Auditors' Report

The Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to financial statements, the financial statements of the Authority are intended to present the financial position, the changes in financial position, and cash flows thereof of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2014, and the changes in its financial position, and, where applicable, its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Requirements by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014, on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.

KKDL Y LLC

Honolulu, Hawaii
December 5, 2014

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

Management's Discussion and Analysis

June 30, 2014

Management of the Stadium Authority, State of Hawaii (the Authority) offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of Aloha Stadium as of and for the year ended June 30, 2014. This management's discussion and analysis is designed to assist the reader in focusing on the Authority's financial issues and activities to identify any significant changes in the Authority's financial position. The Authority encourages readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Overview of the Financial Statements

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

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

Statement of Net Position

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

Statement of Revenues, Expenses, and Changes in Net Position

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

Statement of Cash Flows

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

Notes to Financial Statements

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

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

Management's Discussion and Analysis

June 30, 2014

Condensed Financial Information

The following are summaries from the Authority's financial statements as of and for the years ended June 30, 2014 and 2013 (in thousands):

| | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|
| Net Position: | | |
| Current and other assets | \$ 6,556 | \$ 6,820 |
| Capital assets, net | 76,918 | 80,561 |
| Total assets | <u>83,474</u> | <u>87,381</u> |
| Current liabilities | 1,113 | 1,239 |
| Noncurrent liabilities | 2,775 | 3,103 |
| Total liabilities | <u>3,888</u> | <u>4,342</u> |
| Investment in capital assets | 76,918 | 80,561 |
| Restricted | 1,140 | - |
| Unrestricted | 1,528 | 2,478 |
| Total net position | <u>\$ 79,586</u> | <u>\$ 83,039</u> |
| Changes in Net Position: | | |
| Operating revenues: | | |
| Rentals from attractions | \$ 4,612 | \$ 4,725 |
| Commissions from food and beverage concessionaire | 956 | 895 |
| Other | 2,179 | 1,198 |
| Total operating revenues | <u>7,747</u> | <u>6,818</u> |
| Operating expenses: | | |
| Depreciation | (6,217) | (6,214) |
| Personnel services | (4,463) | (4,419) |
| Other | (3,084) | (3,180) |
| Total operating expenses | <u>(13,764)</u> | <u>(13,813)</u> |
| Operating loss | (6,017) | (6,995) |
| Nonoperating revenues: | | |
| Interest and investment income, net | 14 | 65 |
| Loss before capital contributions | (6,003) | (6,930) |
| Capital contributions | 2,550 | 3,707 |
| Change in net position | (3,453) | (3,223) |
| Net position at beginning of year | 83,039 | 86,262 |
| Net position at end of year | <u>\$ 79,586</u> | <u>\$ 83,039</u> |

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

Management's Discussion and Analysis

June 30, 2014

Financial Analysis

Current and other assets decreased by \$264,000 or 3.9% from the previous fiscal year. The decrease is primarily due to the decrease in cash of \$223,000.

Capital assets, net decreased by \$3,643,000 or 4.5% from the previous fiscal year. The decrease is primarily due to the depreciation of the capital assets, which amounted to \$6,217,000, which was offset by the additions of Stadium structure of \$829,000 and an increase in CIP of \$1,721,000. These additions included various health and safety projects, and replacement of transformers. The Authority's investment in capital assets as of June 30, 2014 amounted to \$76,918,000 (net of accumulated depreciation of \$105,355,000). This investment in capital assets includes the stadium structure, land and land improvements, construction in progress, and equipment, furniture, and fixtures.

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

Current liabilities decreased by \$126,000 or 10.2% from the previous fiscal year. Fluctuations in the current liabilities are due to normal business operations.

Noncurrent liabilities decreased by \$328,000 or 10.6% from the previous fiscal year. The decrease is primarily due to a net decrease in licensee deposits of \$629,000, offset by an increase in the Authority's allocated share of the State of Hawaii's postemployment liability of \$302,000.

Net position decreased by \$3,453,000 or 4.2% from the previous fiscal year. The decrease is due primarily to current year's operating loss of \$6,017,000, offset by current year's capital contributions of \$2,550,000.

By far, the largest portion of the Authority's net position (\$76,918,000 or 97%) reflects its investment in capital assets. The Authority uses these capital assets to provide services to the customers of Aloha Stadium; consequently, these assets are not available for future spending. An additional portion of the Authority's net position (\$1,140,000 or 1%) represents restricted resources that are held in a separate administrative trust account to be used for the maintenance and replacement of the field and for travel subsidies for the University of Hawaii athletics program. The remaining portion of the Authority's net position (\$1,528,000 or 2%) may be used to meet the Authority's ongoing obligations, such as future operational expenses, replacement equipment, and personnel costs.

Operating revenues increased by \$929,000 or 13.6% from the previous fiscal year. The increase was mainly due to an increase in advertising and food and beverage revenues of \$825,000 and \$57,000, respectively, offset by a decrease in rentals from attraction revenue of \$113,000.

Operating expenses decreased by \$49,000 or 0.4% from the previous fiscal year.

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

Management's Discussion and Analysis

June 30, 2014

Capital contributions decreased by \$1,157,000 or 31.2% from the previous fiscal year. The decrease in capital contributions is primarily due to completion of Aloha Stadium roof repairs and improvements. The completed improvements include various health and safety projects and rail analysis of stadium structural improvements and stability.

Requests for Information

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

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

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

Statement of Net Position

June 30, 2014

Assets

Current assets:

Cash (notes 4, 7, and 8):

| | |
|--------------------------|-----------------|
| Cash in State Treasury | \$ 5,586,580 |
| Cash in bank and on hand | 270,722 |
| | <hr/> 5,857,302 |

Receivables from concessionaire and other, net of allowance for doubtful accounts of zero (notes 7, and 8)

698,315

Total current assets

6,555,617

Capital assets, net (note 5)

76,918,418

Total assets

83,474,035

Liabilities

Current liabilities:

| | |
|---|-----------------|
| Vouchers payable | 205,065 |
| Accrued payroll | 306,475 |
| Workers compensation | 314,087 |
| Accrued vacation – due within one year (note 6) | 164,948 |
| Due to State General Fund for advances for Imprest Fund | 30,000 |
| Other (note 7) | 92,473 |
| | <hr/> 1,113,048 |

Total current liabilities

1,113,048

Postemployment liability (note 6)

2,378,445

Licenses' deposits (note 7)

64,367

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

331,953

Total liabilities

3,887,813

Commitments and contingencies (notes 6, 8, 9, and 10)

Net Position

| | |
|------------------------------|---------------------------|
| Investment in capital assets | 76,918,418 |
| Restricted (note 8) | 1,140,000 |
| Unrestricted | 1,527,804 |
| | <hr/> 79,586,222 |
| Total net position | <hr/> <hr/> \$ 79,586,222 |

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2014

| | |
|---|---------------|
| Operating revenues: | |
| Rentals from attractions | \$ 4,612,194 |
| Advertising (note 8) | 1,172,450 |
| Commissions from food and beverage concessionaire | 956,410 |
| Parking | 766,401 |
| Other | 240,039 |
| | 7,747,494 |
| Operating expenses: | |
| Depreciation (note 5) | 6,216,639 |
| Personnel services (note 6) | 4,462,970 |
| Utilities | 1,162,951 |
| Special fund assessments (note 10) | 431,260 |
| Security | 316,130 |
| Repairs and maintenance | 276,218 |
| Professional services | 227,786 |
| Other | 669,954 |
| | 13,763,908 |
| Operating loss | (6,016,414) |
| Nonoperating revenues: | |
| Interest and investment income (note 4) | 14,043 |
| Loss on disposal of capital assets | (23) |
| | (6,002,394) |
| Loss before capital contributions | (6,002,394) |
| Capital contributions | 2,550,076 |
| | (3,452,318) |
| Change in net position | (3,452,318) |
| Net position at beginning of year | 83,038,540 |
| Net position at end of year | \$ 79,586,222 |

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year Ended June 30, 2014

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 7,788,887 |
| Cash paid to suppliers | (3,964,263) |
| Cash paid to employees | (4,037,623) |
| Net cash used in operating activities | <u>(212,999)</u> |
| Cash flows from investing activities: | |
| Acquisition of capital assets | (24,223) |
| Interest and investment income | 14,043 |
| Net cash used in investing activities | <u>(10,180)</u> |
| Net decrease in cash | (223,179) |
| Cash at beginning of year | <u>6,080,481</u> |
| Cash at end of year | <u><u>\$ 5,857,302</u></u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (6,016,414) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation expense | 6,216,639 |
| Decrease in receivables from concessionaires and other | 41,393 |
| Increase (decrease) in liabilities: | |
| Vouchers payable | (228,633) |
| Accrued payroll | 11,140 |
| Workers compensation | 102,041 |
| Accrued vacation | 10,445 |
| Postemployment liability | 301,721 |
| Licensees' deposits | (629,169) |
| Other | (22,162) |
| Net cash used in operating activities | <u><u>\$ (212,999)</u></u> |
| Supplemental disclosure of noncash capital and related financing activity: | |
| Capital assets contributed | <u><u>\$ 2,550,076</u></u> |

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2014

(1) Financial Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

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

Basis of Accounting

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

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

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

Notes to Financial Statements

June 30, 2014

Cash

Cash reported in the statement of net position includes cash in the State Treasury, cash in bank accounts, and cash on hand.

Capital Assets

Capital assets acquired by purchase are recorded at cost. Donated capital assets are recorded at estimated fair market value at the date of acquisition.

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

| | |
|------------------------------------|---------------|
| Stadium structure | 20 – 40 years |
| Equipment, furniture, and fixtures | 5 – 15 years |

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

Capital Contributions

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

Net Position

Net position is classified in the following components: investment in capital assets, restricted, and unrestricted net position. Investment in capital assets consists of capital assets, net of accumulated depreciation. Restricted net position consists of funds held in a separate administrative trust account subject to external restrictions on how they may be used. Unrestricted net position may be used to meet the Authority's ongoing obligations such as future operational expenses, replacement equipment, and personnel costs.

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

Notes to Financial Statements

June 30, 2014

Recently Issued Accounting Pronouncements

GASB Statement No. 65

During fiscal year 2014, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. This statement did not have a material impact on the Authority's financial statements.

GASB Statement No. 66

During fiscal year 2014, the Authority implemented GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. This statement did not have a material impact on the Authority's financial statements.

GASB Statement No. 68

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which will become effective for financial statements for fiscal years beginning after June 15, 2014. This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of GASB Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this statement.

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

Notes to Financial Statements

June 30, 2014

The Authority is currently evaluating the impact that GASB Statement No. 68 will have on its financial statements.

GASB Statement No. 71

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, which should be applied simultaneously with the provisions of GASB Statement No. 68. This statement amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB Statement No. 68 by employers and nonemployer contributing entities. The Authority is currently evaluating the impact that GASB Statement No. 71 will have on its financial statements.

Use of Estimates

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

(3) Budgeting

The Authority's operations are subject to a comprehensive budget. Estimated revenues and expenses are provided to B&F for accumulation with budgeted amounts of the other state departments and offices. Those accumulated estimated revenues and expenses are provided to the State legislature for approval. Once approved by the legislature, the estimates are provided to the Governor of the State for final approval. Budgeted revenues are estimates of rentals, commissions, and other revenues to be received during the year. Budgeted expenses are estimates of expenditures to be made.

(4) Cash

Cash in State Treasury

The State maintains an investment pool that is used by various state departments and agencies, including the Authority. The amount reported as cash in State Treasury in the accompanying statement of net position reflects the Authority's relative position in the State's investment pool. For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on the daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being

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

Notes to Financial Statements

June 30, 2014

under-collateralized at times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The State Director of Finance (the Director) is responsible for the safekeeping of all monies paid into the State Treasury. The Director pools and invests any monies of the State, which, in the Director's judgment, are in excess of amounts necessary for meeting the specific requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, repurchase agreements, commercial paper, banker's acceptances, and money market funds maintaining a Triple-A rating.

At June 30, 2014, the amount reported as cash in State Treasury reflects the Authority's relative position in the State's investment pool and amounted to \$5,586,580.

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

Concentration of Credit Risk

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

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

Notes to Financial Statements

June 30, 2014

Information relating to the cash in State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the investment pool (which includes the Authority's cash in State Treasury) and collateralization of the investment pool balances, as well as custodial credit risk, interest rate risk, concentration of credit risk, and foreign currency risk, is included in the Comprehensive Annual Financial Report (CAFR) of the State.

The Authority's share of the State's investment pool, as summarized in the table below, was 0.2% at June 30, 2013 (amounts in thousands):

| | <u>Fair value</u> | <u>Maturity (in years)</u> | | |
|-------------------------------|---------------------|----------------------------|-------------------|-------------------|
| | | <u>Less than 1</u> | <u>1-5</u> | <u>>5</u> |
| Investment - Primary | | | | |
| Government: | | | | |
| Certificates of deposit | \$ 976,243 | \$ 878,619 | \$ 97,624 | \$ - |
| U.S. government securities | 1,092,462 | 567,854 | 320,667 | 203,941 |
| Repurchase agreements | 255,683 | 219,887 | 35,796 | - |
| | <u>\$ 2,324,388</u> | <u>\$ 1,666,360</u> | <u>\$ 454,087</u> | <u>\$ 203,941</u> |
| Investment - Fiduciary Funds: | | | | |
| Certificates of deposit | \$ 166,308 | \$ 149,677 | \$ 16,631 | \$ - |
| U.S. government securities | 186,106 | 99,614 | 50,716 | 35,776 |
| Repurchase agreements | 43,557 | 37,459 | 6,098 | - |
| | <u>\$ 395,971</u> | <u>\$ 286,750</u> | <u>\$ 73,445</u> | <u>\$ 35,776</u> |

Information relating to the State's investment pool at June 30, 2014 will be included in the comprehensive annual financial report of the State when issued.

Cash in Bank

At June 30, 2014, the carrying value of the Authority's cash in bank balance was \$255,503 and the bank balance was \$257,429.

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

Notes to Financial Statements

June 30, 2014

(5) Capital Assets

At June 30, 2014, capital assets consisted of the following:

| | Balance at June 30, 2013 | Additions | Deductions | Transfers | Balance at June 30, 2014 |
|---|-------------------------------------|---------------------------|--------------------|------------------|-------------------------------------|
| Stadium structure | 158,552,821 | 829,197 | - | - | 159,382,018 |
| Equipment, furniture and fixtures | 3,430,161 | 24,223 | (93,705) | - | 3,360,679 |
| | <u>161,982,982</u> | <u>853,420</u> | <u>(93,705)</u> | <u>-</u> | <u>162,742,697</u> |
| Less accumulated depreciation for: | | | | | |
| Stadium structure | (96,572,641) | (6,078,493) | - | - | (102,651,134) |
| Equipment, furniture, and fixtures | (2,659,519) | (138,146) | 93,682 | - | (2,703,983) |
| Total accumulated depreciation | <u>(99,232,160)</u> | <u>(6,216,639)</u> | <u>93,682</u> | <u>-</u> | <u>(105,355,117)</u> |
| Total depreciable capital assets, net | 62,750,822 | (5,363,219) | (23) | - | 57,387,580 |
| Land and land improvements | 11,518,621 | - | - | - | 11,518,621 |
| Construction in progress | 6,291,338 | 1,720,879 | - | - | 8,012,217 |
| Total capital assets, net | <u><u>80,560,781</u></u> | <u><u>(3,642,340)</u></u> | <u><u>(23)</u></u> | <u><u>-</u></u> | <u><u>76,918,418</u></u> |

Depreciation expense amounted to \$6,216,639 for the fiscal year ended June 30, 2014.

(6) Retirement Benefits

Employees' Retirement System of the State of Hawaii

Plan Description

All eligible employees of the State and counties, which includes the Authority, are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing, multiple-employer defined benefit public

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

Notes to Financial Statements

June 30, 2014

employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action. The ERS is governed by a Board of Trustees. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by wiring to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813, or through the ERS's website: www.ers.hawaii.gov.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employees contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan, and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired after July 1, 2006, were required to join the hybrid plan.

Funding Policy

Covered employees of the contributory plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 7.8% or 9.8% of their salary, respectively. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 12.2% or 14.2% of their salary, respectively. Covered employees of the hybrid plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 6% or 8% of their salary, respectively. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage

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

Notes to Financial Statements

June 30, 2014

of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The required pension contributions by the Authority for the years ended June 30, 2014, 2013, and 2012 were \$295,106, \$280,552, and \$264,354, 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.

Postemployment Health Care and Life Insurance Benefits

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

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution.

For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage, but must pay the difference.

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

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

Notes to Financial Statements

June 30, 2014

Measurement of the actuarial valuation and the annual required contribution (ARC) is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Authority. The 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, 2014 was \$191,299, which represented 39% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of \$493,020.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2014:

| | |
|------------------------------|----------------------------|
| Balance at June 30, 2013 | \$ 2,076,724 |
| Annual required contribution | 493,020 |
| Contributions made | <u>(191,299)</u> |
| Balance at June 30, 2014 | <u><u>\$ 2,378,445</u></u> |

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

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

The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

Deferred Compensation

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

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

Notes to Financial Statements

June 30, 2014

Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying financial statements.

Accrued Vacation

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarter working days for each month of service up to 720 hours at calendar year-end, and is convertible to pay upon termination of employment.

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2014:

| | | |
|--------------------------|----|-----------------------|
| Balance at June 30, 2013 | \$ | 486,456 |
| Additions | | 191,390 |
| Deletions | | <u>(180,945)</u> |
| Balance at June 30, 2014 | | 496,901 |
| Less current portion | | <u>164,948</u> |
| Noncurrent portion | \$ | <u><u>331,953</u></u> |

Accrued Sick Leave

Full-time employees are credited with sick leave at a rate of one and three-quarter days per month of service. Unused sick leave may be accumulated without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment. As such, no liability is recorded for accumulated unused sick leave.

However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave at June 30, 2014 amounted to approximately \$1,600,000.

(7) Stadium Special Account

Contracts with licensees of the Authority and the related ticket sales are controlled in the Stadium Special Account. This account's cash balance and liabilities to third parties, net of amounts owed to the Authority are included in the accompanying statement of net position and amounted to \$240,722 at June 30, 2014. The activity in the account is included in the accompanying statement of revenues, expenses, and change in net assets only as it relates to the Authority's rentals from attractions, expense reimbursements from users, and other miscellaneous transactions (i.e., excludes ticket sales proceeds held on behalf of the licensees).

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

Notes to Financial Statements

June 30, 2014

(8) Advertising Agreement

Under terms of an advertising agreement, the Authority receives sponsorship fees subject to external restrictions on how they may be used. The sponsorship fees must be deposited into an administrative trust account to be used for the maintenance and replacement of the field and for travel subsidies for the University of Hawaii athletics program, as defined in the advertising agreement. Unspent sponsorship fees aggregated to \$1,140,000 as of June 30, 2014, and are presented as restricted net position in the accompanying statement of net position. The advertising agreement expires in December 2015, with an option to extend for an additional 5 years.

(9) Commitments and Contingencies

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

(10) Special Fund Assessments

In accordance with the HRS, the Authority has been assessed amounts to support the State's central administrative services. The assessments are based upon a percentage of the Authority's estimated revenues and expenses for the fiscal year. Assessments amounted to \$431,260 for the fiscal year ended June 30, 2014.

(11) Subsequent Events

The Authority has evaluated subsequent events from the balance sheet date through December 5, 2014, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

SECTION III

INTERNAL CONTROL AND COMPLIANCE SECTION

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

The Auditor
State of Hawaii:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Stadium Authority, State of Hawaii (the Authority), a component unit of the State of Hawaii, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KKDL LLC

Honolulu, Hawaii
December 5, 2014