

State of Hawaii  
Department of Accounting and General Services  
State Motor Pool Revolving Fund  
Financial and Compliance Audit  
June 30, 2008

Submitted By  
The Auditor  
State of Hawaii

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**PART I**  
**TRANSMITTAL**



February 24, 2009

The Auditor  
State of Hawaii

We have completed our financial audit of State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund (the "Fund") as of and for the year ended June 30, 2008. The audit was performed in accordance with our agreement with the Auditor, State of Hawaii dated June 5, 2008.

### OBJECTIVES

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Fund's financial statements as of and for the fiscal year ended June 30, 2008. More specifically, the objectives of our audit were as follows:

1. To provide a basis for an opinion on the fairness of the financial statements of the Fund.
2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the Fund is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the Federal Government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the State and the Fund the proper information to plan, evaluate, control and correct program activities.
4. To evaluate the adequacy, effectiveness and efficiency of the systems and procedures for financial accounting, operational and internal controls, and to recommend improvements to such systems and procedures.

## SCOPE OF THE AUDIT

Our audit was performed 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 scope of our audit included an examination of the transactions and accounting records of the Fund for the fiscal year ended June 30, 2008.

## ORGANIZATION OF THE REPORT

This report is organized into six parts:

PART I - presents the transmittal letter.

PART II - presents management's discussion and analysis.

PART III - presents the financial section which includes the Fund's financial statements and the auditors' report on such statements.

PART IV - contains the report on internal controls over financial reporting and compliance.

PART V - presents the schedule of audit findings and questioned costs.

PART VI - contains the corrective action plan.

At this time, we wish to thank the Fund's personnel for their cooperation and assistance extended to us. We will be happy to respond to any questions that you may have on this report.

Very truly yours,



Michael Y. Ichikawa  
Principal

**PART II**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008

This section of the annual financial report presents an analysis of the Fund's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the financial statements which follow this section.

**FINANCIAL HIGHLIGHTS**

- In 2008 the Fund's net assets increased by 8.66% or \$351,000 as compared to 2007.
- The Fund's investment in capital assets was \$2,203,000 for the year ended June 30, 2008, which increased by \$114,000 or 5.46% as compared to the prior year.
- The Fund's operating revenues increased by 119,000 or 5.31% in 2008 as compared to 2007, due to increased vehicle rental and repairs collection.
- The Fund's received a transfer in of capital assets of \$125,000 in 2008.

**OVERVIEW OF ANNUAL REPORT**

This annual report consists of six parts: Transmittal letter; management's discussion and analysis; financial section; internal control and compliance; schedule of audit findings and questioned costs; and corrective action plan.

**REQUIRED FINANCIAL STATEMENTS**

The Financial Statements of the Fund present information about the Fund as a whole and its activities and uses the accrual basis of accounting. The accrual basis which is similar to the accounting basis used by private sector companies recognizes revenues and expenses regardless of when cash is paid or received.

The Statement of Net Assets provides both short-term and long-term information about the Fund's financial position, which reflects the Fund's economic condition at the end of the year.

The Statement of Net Assets provides, over time, indicators of the Fund's financial position. The Statement of Net Assets includes all the Fund's assets and liabilities, and provides information about the nature and the amounts of investment in resources (assets) and obligations (liabilities) of the Fund.

The Statement of Revenues, Expenses and Changes in Net Assets reflect the Fund's current year's revenues and expenses regardless of when cash is received or paid.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
JUNE 30, 2008

**REQUIRED FINANCIAL STATEMENTS (Continued)**

The Statement of Cash Flows reflects the flow of cash of the Fund in four categories or activities: operating, investing, capital, and noncapital.

Tables 1 and 2 present a comparative view of net assets and changes in net assets as of June 30, 2008 and 2007.

**TABLE 1**  
**NET ASSETS**  
(Rounded to nearest \$1,000)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current	\$ 2,497,000	\$ 2,171,000
Capital assets, net of depreciation	<u>2,203,000</u>	<u>2,089,000</u>
TOTAL ASSETS	<u>\$ 4,700,000</u>	<u>\$ 4,260,000</u>
LIABILITIES		
Current	\$ 103,000	\$ 111,000
Long-term	<u>192,000</u>	<u>95,000</u>
TOTAL LIABILITIES	<u>295,000</u>	<u>206,000</u>
NET ASSETS		
Invested in capital assets, net of related debt	2,203,000	2,089,000
Unreserved	<u>2,202,000</u>	<u>1,965,000</u>
TOTAL NET ASSETS	<u>4,405,000</u>	<u>4,054,000</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,700,000</u>	<u>\$ 4,260,000</u>

Net assets of the Fund increased by 8.66% in 2008. Investment in capital assets (i.e., vehicles, shop equipment, furniture and fixtures), net of the related debt used to purchase the assets represents a large portion of the Fund's net assets; \$2,203,000 or 50.00% in 2008 and \$2,089,000 or 51.53% in 2007. Capital assets are used to provide vehicles for state agencies. The Fund's investment in its capital assets is reported net of debt. The resources needed to repay this debt must be provided by other sources, since the capital assets, mainly the vehicles, cannot be used to liquidate the debt. The remaining unreserved assets may be used to finance day to day operations without any constraints established by debt, or other legal requirements.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
JUNE 30, 2008

**TABLE 2**  
**CHANGES IN NET ASSETS**  
(Rounded to nearest \$1,000)

	2008	2007
OPERATING REVENUES		
Motor vehicle rentals	\$ 2,004,000	\$ 1,918,000
Motor vehicle repairs	<u>357,000</u>	<u>324,000</u>
TOTAL OPERATING REVENUES	<u>2,361,000</u>	<u>2,242,000</u>
OPERATING EXPENSES		
General operating and administrative	1,660,000	1,445,000
Depreciation	<u>604,000</u>	<u>643,000</u>
TOTAL OPERATING EXPENSES	<u>2,264,000</u>	<u>2,088,000</u>
INCOME FROM OPERATIONS	97,000	154,000
NET NON OPERATING REVENUE	129,000	111,000
TRANSFERS	<u>125,000</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>\$ 351,000</u>	<u>\$ 265,000</u>

The Fund's vehicle rental rates are established under the jurisdiction of the Comptroller, as Chief of the Department of Accounting and General Services or the Comptroller's designated representative, the division head of the Automotive Management Division. The increase in operating revenues of 5.31% or \$119,000 in 2008 was primarily due to the increase in motor vehicle rental and repairs collections.

The increase in general operating expenses of 14.88% or \$215,000 in 2008 was primarily due to increases in personnel services, repair & maintenance and fuel costs during the current year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

The Fund's investment in capital assets amounted to \$2,203,000 and \$2,089,000 (net of accumulated depreciation of \$3,380,000 in 2008 and \$3,193,000 in 2007). Capital assets include vehicles, shop equipment, furniture and fixtures.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
JUNE 30, 2008

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

Capital Assets (Continued)

Net capital assets (Rounded to the nearest \$1,000) are accounted for as follows:

	<u>2008</u>	<u>2007</u>
ASSETS		
Capital assets, net of accumulated depreciation:		
Vehicles	\$ 2,195,000	\$ 2,079,000
Shop equipment, furniture and fixtures	<u>8,000</u>	<u>10,000</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 2,203,000</u>	<u>\$ 2,089,000</u>

Debt Administration

There was no debt as of June 30, 2008 and 2007.

**CURRENTLY KNOWN DECISIONS AND FACTS**

None

**PART III**  
**FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

The Auditor  
State of Hawaii

We have audited the accompanying financial statements of the State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund (the "Fund") as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of Hawaii, or any other segment thereof, as of June 30, 2008, and the changes in its financial position, or, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2009, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 – 6, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of the Office of the Auditor, management of the Fund, the Department of Accounting and General Services and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Honolulu, Hawaii  
February 24, 2009

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

CURRENT ASSETS	
Cash and cash equivalents	\$ 2,075,571
Motor vehicle receivable, net	406,052
Inventories	<u>15,079</u>
TOTAL CURRENT ASSETS	<u>2,496,702</u>
NONCURRENT ASSETS	
Capital assets, at cost, less accumulated depreciation	<u>2,202,878</u>
TOTAL ASSETS	<u>\$ 4,699,580</u>
CURRENT LIABILITIES	
Accounts payable	\$ 35,348
Accrued liabilities	<u>66,956</u>
TOTAL CURRENT LIABILITIES	<u>102,304</u>
NONCURRENT LIABILITIES	
Accrued liabilities	110,495
Net OPEB obligation	<u>81,688</u>
TOTAL NONCURRENT LIABILITIES	<u>192,183</u>
TOTAL LIABILITIES	<u>294,487</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,202,878
Unreserved	<u>2,202,215</u>
TOTAL NET ASSETS	<u>4,405,093</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,699,580</u>

See accompanying notes to financial statements.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2008

OPERATING REVENUES	
Motor vehicle rentals	\$ 2,003,936
Motor vehicle repairs	<u>357,228</u>
TOTAL OPERATING REVENUES	<u>2,361,164</u>
OPERATING EXPENSES	
Personnel services	825,120
Depreciation	604,554
Gas and oil	504,832
Repairs and maintenance	155,105
Special assessment	52,543
Others	<u>122,557</u>
TOTAL OPERATING EXPENSES	<u>2,264,711</u>
INCOME FROM OPERATIONS	<u>96,453</u>
NONOPERATING REVENUE	
Interest and miscellaneous income	81,613
Gain on disposition of capital assets	<u>47,330</u>
TOTAL NONOPERATING REVENUE	<u>128,943</u>
INCOME BEFORE TRANSFERS	225,396
TRANSFERS IN OF CAPITAL ASSETS	<u>125,120</u>
CHANGE IN NET ASSETS	350,516
TOTAL NET ASSETS, BEGINNING OF THE YEAR	<u>4,054,577</u>
TOTAL NET ASSETS, END OF THE YEAR	<u>\$ <u>4,405,093</u></u>

See accompanying notes to financial statements.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from motor vehicle rentals	\$ 1,947,901
Receipts from motor vehicle repairs	357,228
Payments for personnel services	(726,050)
Payments for gas and oil	(489,186)
Payments for repairs and maintenance	(151,888)
Payments for special assessment	(23,092)
Other administrative payments	(159,605)
NET CASH PROVIDED BY OPERATING ACTIVITIES	755,308

CASH FLOWS FROM INVESTING ACTIVITIES

Interest from pooled funds	81,613
NET CASH PROVIDED BY INVESTING ACTIVITIES	81,613

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(734,408)
Net transfer-in of capital assets	148,837
Proceeds from disposal of equipment	39,904
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(545,667)

NET INCREASE IN CASH AND CASH EQUIVALENTS	291,254
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CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	1,784,317
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 2,075,571

See accompanying notes to financial statements.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
STATEMENT OF CASH FLOWS (Continued)  
YEAR ENDED JUNE 30, 2008

RECONCILIATION OF INCOME FROM OPERATIONS TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:

Income from operations	\$	96,453
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation		604,554
Net OPEB obligation		81,688
(Increase) decrease in assets:		
Motor vehicle rental receivable		(56,035)
Due from other funds		18,701
Inventories		3,217
Increase (decrease) in liabilities:		
Accounts payable		(9,454)
Accrued wages payable		1,776
Accrued vacation payable		15,605
Due to other funds		(1,197)
		658,855
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	755,308

See accompanying notes to financial statements.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State Motor Pool Revolving Fund (the "Fund") was established pursuant to Act 77, Session Laws of Hawaii 1963 (Section 26-6 of the Hawaii Revised Statutes). The Fund is responsible for providing safe and economical transportation for the personnel of state departments and agencies requiring the use of passenger vehicles in connection with official state business. All monies collected are used for the acquisition, operation, repair, maintenance, storage, and disposition of all state-owned vehicles assigned to the State Motor Pool.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). Governments are required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncement. The more significant accounting policies established by GAAP and used by the Fund are discussed below.

Basis of Accounting - The Fund is an internal service fund (proprietary fund type) as defined by the Governmental Accounting Standards Board (GASB), which uses the flow of economic resources measurement focus and accrual basis of accounting as generally applied to commercial enterprises. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Reporting Entity - The financial statements reflect only the Fund's financial activities. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State of Hawaii (State) annually, which include the Fund's financial activities.

Net Assets - Net assets are reported into two categories: net assets invested in capital assets, net of related debt and unreserved net assets.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Special Assessments - HRS Section 36-27 requires that the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund's receipts. HRS Section 36-30 requires that the Fund be assessed its pro rata share of administrative expenses incurred by the Department of Accounting and General Services (DAGS), based on the ratio of the general administrative service expenses to DAGS' net departmental expenses. There was no HRS Section 36-27 assessment in 2008. The total of the assessment under HRS Section 36-30 was \$52,543 in 2008.

Risk Management - the Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first \$1,000,000 per occurrence of property losses, and the first \$3 million with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$100 million, except for flood and earthquake which individually is \$40 million aggregate loss, and terrorism which is \$50 million per occurrence and boiler and machinery which is \$40 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is \$10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of \$20 million per occurrence and in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimated.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Vacation and Sick Leave - it is the Fund's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred.

Deferred Compensation Plan - The State offers its employees a deferred compensation plan (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 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 the State's 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 Fund's deferred compensation plan are not reported in the accompanying basic financial statements.

Cash and Cash Equivalents - Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and all time certificates of deposit.

Investments - Investments in U.S. government securities are carried at fair value based on quoted market prices. Investments in time certificates of deposit and repurchase agreements are carried at cost.

Inventories - Inventories, principally supplies, are stated at the lower of cost or market with cost being determined by the first-in, first-out method (FIFO).

Capital Assets - Capital assets are defined by the Fund as vehicles, shop equipment, furniture and fixtures. Infrastructures used by the Fund are not included. Capital assets included in the financial statements are assets with estimated useful lives greater than one year and acquisition costs greater than the following amounts:

Vehicles	\$5,000
Shop equipment, furniture and fixtures	5,000

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are stated at cost. Donated assets are recorded at their fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly acquired by the Fund. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statement of revenues, expenses and changes in net assets.

Depreciation is computed under the straight-line method over estimated useful lives as follows:

	<u>Useful Lives</u>
Vehicles	10 years
Shop equipment, furniture and fixtures	5 – 7 years

2. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The Director of Finance pools and invests any monies of the Fund, which in the Director's judgment, are in excess of the amounts necessary for meeting the specific requirements of the Fund. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. governments, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. For the purposes of the financial statements, the Fund considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents. Total cash and cash equivalents of the Fund at June 30, 2008 were \$2,075,571.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2008

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles	\$ 5,210,283	\$ 738,498	\$ 437,605	\$ 5,511,176
Shop equipment, furniture & fixtures	<u>71,658</u>	<u>-</u>	<u>-</u>	<u>71,658</u>
Total capital assets	<u>5,281,941</u>	<u>738,498</u>	<u>437,605</u>	<u>5,582,834</u>
Less accumulated depreciation for:				
Vehicles	(3,131,218)	(602,554)	(417,224)	(3,316,548)
Shop equipment, furniture & fixtures	<u>(61,408)</u>	<u>(2,000)</u>	<u>-</u>	<u>(63,408)</u>
Total accumulated depreciation	<u>(3,192,626)</u>	<u>(604,554)</u>	<u>(417,224)</u>	<u>(3,379,956)</u>
Total capital assets, net of depreciation	<u>\$ 2,089,315</u>	<u>\$ 133,944</u>	<u>\$ (20,381)</u>	<u>\$ 2,202,878</u>

4. ACCRUED LIABILITES

Accrued liabilities consist of the following:

Accrued vacation payable	\$ 138,070
Accrued wages payable	30,681
Accrued workers' compensation	<u>8,700</u>
	177,451
Less current portion	<u>(66,956)</u>
Total accrued liabilities, net of current portion	<u>\$ 110,495</u>

5. WORKERS' COMPENSATION RESERVE

The Fund is fully self-insured for workers' compensation and disability claims which are expensed when incurred. The Fund pays a portion of wages, medical bills, and judgments as stipulated by the Department of Labor and Industrial Relations, and other costs for injured workers. During the year ended June 30, 2008, there were no payments for workers' compensation claims and disability expenses. The Fund has recorded a reserve of \$8,700 for the expected cost of open reported claims based on historical cost information for closed and open claims as of June 30, 2008.

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2008

6. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Due within <u>one year</u>
Accrued liabilities	\$ 160,068	\$ 80,048	\$ 62,665	\$ 177,451	\$ 66,956
Net OPEB obligation	-	81,688	-	81,688	-
Total non-current liabilities	<u>\$ 160,068</u>	<u>\$161,736</u>	<u>\$ 62,665</u>	<u>\$ 259,139</u>	<u>\$ 66,956</u>

7. RETIREMENT BENEFITS

Employees' Retirement System

All eligible employees of the Fund are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new non-contributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the non-contributory plan. The non-contributory 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 non-contributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2008

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members will 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. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. 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 of compensation, including normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirement as of June 30, 2007, 2006 and 2005, based on the most recent information available, was approximately \$341,896,000, \$318,144,000, and \$251,685,000 respectively. The State contributed 95.8%, 100%, and 100% of its required contributions for those years respectively. The Fund's covered payroll was approximately \$555,920 in 2008. The retirement plan contributions charged to the Fund's operation was \$73,368 in 2008.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

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

For employees hired after June 30, 1996, 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' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium. Retirees in this category can elect a family plan to cover dependents.

STATE OF HAWAII  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2008

6. RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits (Continued)

For employees hired on or after July 1, 2001, and who retire with less 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.

There are approximately 37,000 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursements for the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis and the Fund's contribution for the years ended June 30, 2008, 2007, and 2006 were \$45,842, \$57,829, and \$43,028, respectively.

Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

On July 1, 2006, the EUTF adopted GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASB 43). GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires a statement of plan net assets and a statement of changes in plan net assets for defined benefit OPEB plans that are administered as trusts or equivalent arrangements.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the EUTF reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB 10), as amended.

The EUTF administers postemployment healthcare benefits under an agent multiple-employer defined benefit plan as defined by GASB 43.

STATE OF HAWAII  
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6. RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits (Continued)

On July 1, 2007, the State of Hawaii adopted GASB Statement 45, which requires the allocation of OPEB cost to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR) or in stand alone departmental financial statements. The basis for the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits. The State's CAFR contains the required disclosures and supplementary information on the State's OPEB Plans. The State's CAFR can be found at the Department of Accounting and General Services' website: <http://Hawaii.gov/dags/rpts>.

For the year ended June 30, 2008, total annual required contribution of \$517,755,000 was recognized for post-retirement health care and life insurance benefits by the State of which \$186,112,560 was paid in 2008 and a net OPEB obligation of \$331,642,440 remained as of June 30, 2008. The Fund's share of the total annual required contribution was \$127,531, of which \$45,842 was paid in 2008. A net OPEB obligation of \$81,688 is presented in the statement of net assets at June 30, 2008.

7. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state 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. As of June 30, 2008, accumulated sick leave was approximately \$423,435.

**PART IV**

**INTERNAL CONTROL AND COMPLIANCE SECTION**



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 the financial statements of the State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund (the "Fund") as of and for the year ended June 30, 2008, and have issued our report thereon dated February 24, 2009. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the 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. 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*.

We noted certain matters that we have reported to management of the Fund, in a separate letter dated February 24, 2009.

This report is intended solely for the information and use of the management of the Fund, the Department of Accounting and General Services and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Honolulu, Hawaii  
February 24, 2009

**PART V**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS:**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reportable condition identified that is not considered to be material weakness	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Status of Prior Year's Comments**

No matters were reported.

**Current Year's Comments**

No matters were reported.

**PART VI**  
**CORRECTIVE ACTION PLAN**

STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
STATE MOTOR POOL REVOLVING FUND  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2008

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2008.