

DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE OF HAWAII

FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

AND

INDEPENDENT AUDITOR'S REPORT

Akamine, Oyadomari & Kosaki
Certified Public Accountants, Inc.

Submitted by
THE AUDITOR
State of Hawaii

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

March 29, 2010

The Auditor
State of Hawaii

This is our report on the audit of the financial statements of the Department of Accounting and General Services, State of Hawaii (Department), for the year ended June 30, 2009. Our audit was performed in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii, and with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and the OMB Circular A-133 Compliance Supplement.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department of Accounting and General Services, State of Hawaii's, financial statements for the year ended June 30, 2009, and to comply with the requirements of OMB Circular A-133, which established audit requirements for states, local governments and non-profit organizations that receive Federal awards.

More specifically, the objectives of the audit were as follows:

1. To satisfy the audit requirements of OMB Circular A-133.
2. To provide a basis for an opinion on the fairness of the presentation of the Department of Accounting and General Services, State of Hawaii's, financial statements.
3. To determine whether expenditures have been made and all revenues and other receipts to which the Department of Accounting and General Services, State of Hawaii, 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, where applicable, the Federal government.

4. To evaluate the adequacy of the Department of Accounting and General Services, State of Hawaii's, internal control over financial reporting to determine whether there is effective control over and proper accounting of revenues, receipts, expenditures, disbursements, assets, liabilities and Federal award programs and to comply with the applicable laws and regulations.
5. To determine whether the Department of Accounting and General Services, State of Hawaii, has complied with the provisions of the Federal grant agreements and applicable laws, regulations, and circulars with regard to grant activities.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States, as they pertain to financial audits. The scope of our audit included a general audit of the financial transactions and accounting records of the Department of Accounting and General Services, State of Hawaii, for the year ended June 30, 2009. In addition, as part of our determination as to whether the Department of Accounting and General Services, State of Hawaii, has effective controls over and proper accounting of revenues, receipts, expenditures, disbursements, assets and liabilities we considered the internal control over financial reporting. We also performed tests to determine the Department of Accounting and General Services, State of Hawaii's, compliance with the fiscal provisions of its grant agreements and applicable laws, regulations and Federal circulars.

ORGANIZATION OF THE REPORT

This report is presented in four parts as follows:

- Part I - Financial section
- Part II - Compliance and internal control
- Part III - Schedule of findings and questioned costs
- Part IV - Response of the Department of Accounting and General Services, State of Hawaii

We wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the staff of the Department of Accounting and General Services, State of Hawaii.

Sincerely,

Abraham Oyedunni + Kwah C.P.A.s, Inc.

**Department of Accounting and General Services
State of Hawaii**

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**Department of Accounting and General Services
State of Hawaii**

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PART I
FINANCIAL SECTION

FINANCIAL STATEMENTS

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditor's Report

The Auditor
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Department of Accounting and General Services, State of Hawaii, as of and for the year ended June 30, 2009, which collectively comprise the Department's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Department of Accounting and General Services, State of Hawaii. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the proprietary funds and the component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the proprietary funds and the component unit, are based on the reports of the other auditors.

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 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 A to the financial statements, the financial statements of the Department of Accounting and General Services, State of Hawaii, are intended to present the financial position, the changes in financial position and cash flows, where applicable, and budgetary comparisons, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, and the changes in financial position and cash flows, where applicable, and the budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Department of Accounting and General Services, State of Hawaii, as of June 30, 2009, the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general

fund and other major funds 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 March 29, 2010 on our consideration of the Department of Accounting and General Services, State of Hawaii'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 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 10 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors 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 and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Accounting and General Services, State of Hawaii's, basic financial statements. The supplemental information on pages 69 through 72 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of Federal awards on pages 73 and 74 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ahamine Oyedemari & Koralie CPAs, Inc.

Honolulu, Hawaii
March 29, 2010

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
Management's Discussion and Analysis
June 30, 2009

The Department of Accounting and General Services (the Department), State of Hawaii (the State), was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of the Department is to provide professional and technical expertise to state agencies and to enforce compliance with accounting and internal control systems.

As management of the Department, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2009. This discussion and analysis is designed to assist the reader in the analysis of the Department's financial activities based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Government-Wide Highlights

The assets of the Department exceeded its liabilities at June 30, 2009 by \$426,692 (net assets). Of this amount, \$8,214 (unrestricted net assets) may be used to meet the Department's ongoing obligations to citizens and creditors. Net assets of governmental activities decreased by \$82,937 and the net assets of business-type activities decreased by \$1,750, for a net decrease to the Department of \$84,687 from the prior fiscal year.

Fund Highlights

At June 30, 2009, the Department's Governmental Funds reported combined ending fund balances of \$247,928, a decrease of \$92,011 from the prior year. The entire amount represents amounts reserved for specific purposes. The Proprietary Funds reported net assets at June 30, 2009, of \$29,338, a decrease of \$1,750 during the fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private sector business.

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

JUNE 30, 2009

The statement of activities presents information showing how the Department's net assets changed during the most recent fiscal year. Functional activities are highlighted in this statement, with functional expenses shown net of related program revenue. This statement shows the extent to which the various functions depend on state appropriations and other non-program revenues for support.

Both of the government-wide financial statements distinguish functions of the Department that are principally supported by state appropriations and other non-program revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The business-type activities of the Department include the State Parking Revolving Fund and the State Motor Pool Revolving Fund.

The government-wide financial statements include not only the Department itself (known as the Primary Government), but also the activities of the legally separate Stadium Authority, a component unit of the State that is administratively attached to the Department. Financial information for the Stadium Authority is reported separately from the financial information presented for the Department itself.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into three categories: (1) governmental funds; (2) proprietary funds; and (3) fiduciary funds.

Governmental Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2009

The Department maintains three major and numerous nonmajor governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Risk Management Fund, and Capital Projects Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining schedules immediately following the notes to the basic financial statements.

The State Legislature adopts an annual appropriated budget for the Department's General Fund and the Risk Management Fund. A budgetary comparison statement has been provided for the General Fund and the Risk Management Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found immediately following the government-wide statements.

Proprietary Funds

Proprietary funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds and Internal Service Funds because they charge fees for services provided to outsiders and other state agencies. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses an Enterprise Fund to account for the operations of the State Parking Revolving Fund and an Internal Service Fund to account for the operations of the State Motor Pool Revolving Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the State Parking Revolving Fund and the State Motor Pool Revolving Fund.

The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Department. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs.

The basic fiduciary fund financial statements can be found immediately following the component unit financial statements.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the fiduciary fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2009

Other Supplementary Information

Combining Schedules

Combining schedules of General Fund programs and nonmajor Special Revenue funds are presented immediately following the notes to the basic financial statements.

Financial Analysis of the Department's Government-Wide Financial Statements

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the Department). Separate financial statements for the Department's Component Unit, including its respective management's discussion and analysis, can be obtained from the component unit.

Net assets are a useful indicator of a government's financial position. For the Department, total assets exceed liabilities by \$426,692, and decreased \$84,687 or 16.6%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by \$82,937 or 17.3% and business-type activities had a decrease of \$1,750 or 5.6%. The following table was derived from the government-wide statement of net assets.

Summary of Statement of Net Assets

June 30, 2009 and 2008

(Amounts in thousands)

	Primary Government								
	Governmental Activities			Business-Type Activities			Total		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Assets:									
Current and other assets	\$ 296,799	\$ 381,659	\$ (84,860)	\$ 4,922	\$ 4,589	\$ 333	\$ 301,721	\$ 386,248	\$ (84,527)
Capital assets	157,547	148,212	9,335	25,819	27,765	(1,946)	183,366	175,977	7,389
Total assets	<u>\$ 454,346</u>	<u>\$ 529,871</u>	<u>\$ (75,525)</u>	<u>\$ 30,741</u>	<u>\$ 32,354</u>	<u>\$ (1,613)</u>	<u>\$ 485,087</u>	<u>\$ 562,225</u>	<u>\$ (77,138)</u>
Liabilities:									
Long-term liabilities	\$ 17,223	\$ 16,022	\$ 1,201	\$ 1,036	\$ 861	\$ 175	\$ 18,259	\$ 16,883	\$ 1,376
Other liabilities	39,769	33,558	6,211	367	405	(38)	40,136	33,963	6,173
Total liabilities	<u>\$ 56,992</u>	<u>\$ 49,580</u>	<u>\$ 7,412</u>	<u>\$ 1,403</u>	<u>\$ 1,266</u>	<u>\$ 137</u>	<u>\$ 58,395</u>	<u>\$ 50,846</u>	<u>\$ 7,549</u>
Net assets:									
Invested in capital assets, net of related debt	\$ 157,547	\$ 148,212	\$ 9,335	\$ 25,625	\$ 27,484	\$ (1,859)	\$ 183,172	\$ 175,696	\$ 7,476
Restricted	235,306	305,122	(69,816)	-	-	-	235,306	305,122	(69,816)
Unrestricted	4,501	26,957	(22,456)	3,713	3,604	109	8,214	30,561	(22,347)
Total net assets	<u>\$ 397,354</u>	<u>\$ 480,291</u>	<u>\$ (82,937)</u>	<u>\$ 29,338</u>	<u>\$ 31,088</u>	<u>\$ (1,750)</u>	<u>\$ 426,692</u>	<u>\$ 511,379</u>	<u>\$ (84,687)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2009

By far the largest portion of the Department's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Department's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Department's ongoing obligations to creditors.

At June 30, 2009, the Department is able to report positive balances in all three categories of net assets, both for the Department as a whole, as well as for its separate governmental and business-type activities.

The Department's decrease of \$84,687 in the Department's net assets is explained in the governmental and business-type activities discussion below, and is primarily a result of a decrease of \$29,790 in net transfers of capital project funds into the Department from other State Departments and a decrease of \$48,465 in State allotments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2009

A comparison of the cost of services by function of the Department's governmental activities and business type activities is shown below, along with the revenues used to cover the net expenses of the governmental activities:

	Governmental Activities			Business - Type Activities			Total		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Revenues:									
Program revenues:									
Charges for services	\$ 40,174	\$ 43,168	\$ (2,994)	\$ 6,276	\$ 6,092	\$ 184	\$ 46,450	\$ 49,260	\$ (2,810)
Operating grants and contributions	3,738	6,144	(2,406)	-	-	-	3,738	6,144	(2,406)
Capital Grants and Contributions	6,695	-	6,695	-	-	-	6,695	-	6,695
General revenues:									
State allotments, net of lapsed appropriations	120,568	169,033	(48,465)	-	-	-	120,568	169,033	(48,465)
Interest and investment income	(3,380)	1,886	(5,266)	(165)	159	(324)	(3,545)	2,045	(5,590)
Other	-	-	-	(197)	22	(219)	(197)	22	(219)
Total revenues	167,795	220,231	(52,436)	5,914	6,273	(359)	173,709	226,504	(52,795)
Expenses:									
Administration and support	2,599	2,321	278	-	-	-	2,599	2,321	278
State procurement	1,132	1,104	28	-	-	-	1,132	1,104	28
Public building maintenance	28,938	28,524	414	-	-	-	28,938	28,524	414
Accounting	2,352	2,465	(113)	-	-	-	2,352	2,465	(113)
Audit	656	693	(37)	-	-	-	656	693	(37)
Performing and visual arts	5,975	7,482	(1,507)	-	-	-	5,975	7,482	(1,507)
School repairs and maintenance	72	75	(3)	-	-	-	72	75	(3)
Office leasing	17,691	16,673	1,018	-	-	-	17,691	16,673	1,018
Information processing services	17,682	18,710	(1,028)	-	-	-	17,682	18,710	(1,028)
Communications	-	-	-	-	-	-	-	-	-
Parking control	-	-	-	4,733	4,292	441	4,733	4,292	441
Motor pool	-	-	-	2,362	2,265	97	2,362	2,265	97
Other	63,914	50,974	12,940	-	-	-	63,914	50,974	12,940
Capital outlays	138,590	95,541	43,049	-	-	-	138,590	95,541	43,049
Total expenses	279,601	224,562	55,039	7,095	6,557	538	286,696	231,119	55,577
Increase (decrease) in net assets before transfers	(111,806)	(4,331)	(107,475)	(1,181)	(284)	(897)	(112,987)	(4,615)	(108,372)
Transfers	30,244	60,171	(29,927)	(569)	(706)	137	29,675	59,465	(29,790)
Decrease in inventory and other assets	(1,375)	-	(1,375)	-	-	-	(1,375)	-	(1,375)
Change in net assets	(82,937)	55,840	(138,777)	(1,750)	(990)	(760)	(84,687)	54,850	(139,537)
Net assets, beginning of year	480,291	424,451	55,840	31,088	32,078	(990)	511,379	456,529	54,850
Net assets, end of year	\$ 397,354	\$ 480,291	\$ (82,937)	\$ 29,338	\$ 31,088	\$ (1,750)	\$ 426,692	\$ 511,379	\$ (84,687)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2009

The decrease of \$82,937 in the Department's governmental activities net assets was primarily due to a decrease of \$29,927 in net transfers of capital project funds into the Department from other State Departments. General revenues decreased by \$52,436 as a result of a decrease of \$48,465 in allotted appropriations and a decrease of \$5,266 in interest and investment income.

Governmental activities expenditures increased by \$55,039 primarily because of increases in capital outlays of \$43,049, and an increase in other expenses of \$12,940. Business-type activities decreased the Department's net assets by \$1,750 or 5.6%, during the current fiscal year.

Financial Analysis of the Department's Individual Funds

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

Governmental Funds

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

Comparison of Governmental Fund Balance Sheets

June 30, 2009 and 2008

(amounts in thousands)

	2009	2008	Increase (Decrease)
Assets			
General Fund	\$ 17,617	\$ 39,586	\$ (21,969)
Risk Management Fund	23,620	25,799	(2,179)
Capital Projects Fund	216,862	265,691	(48,829)
Other Funds	38,701	50,583	(11,882)
Total	<u>\$ 296,800</u>	<u>\$ 381,659</u>	<u>\$ (84,859)</u>
Liabilities			
General Fund	\$ 5,517	\$ 10,455	\$ (4,938)
Risk Management Fund	12,115	12,103	12
Capital Projects Fund	23,505	15,055	8,450
Other Funds	7,735	4,107	3,628
Total Liabilities	<u>\$ 48,872</u>	<u>\$ 41,720</u>	<u>\$ 7,152</u>
Fund Balances			
General Fund	\$ 12,100	\$ 29,130	\$ (17,030)
Risk Management Fund	11,505	13,697	(2,192)
Capital Projects Fund	193,357	250,636	(57,279)
Other Funds	30,966	46,476	(15,510)
Total Fund Balances	<u>\$ 247,928</u>	<u>\$ 339,939</u>	<u>\$ (92,011)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2009

As of the end of the current fiscal year, the Department's governmental funds reported combined ending fund balances of \$247,928, a decrease of \$92,011 in comparison with the prior fiscal year. There was a surplus of \$133,918 in the unreserved fund balance at June 30, 2009. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use (\$12,103), and (2) for encumbrances (\$101,906).

Comparison of Revenues, Expenditures and Changes in Fund Balances

June 30, 2009 and 2008

(amounts in thousands)

	2009	2008	Increase (Decrease)
Revenues			
General Fund	\$ 70,294	\$ 77,622	\$ (7,328)
Risk Management Fund	17,328	21,832	(4,504)
Capital Projects Fund	58,370	92,701	(34,331)
Other Funds	29,899	29,365	534
Total Revenues	\$ 175,891	\$ 221,520	\$ (45,629)
Expenditures			
General Fund	\$ 81,187	\$ 87,741	\$ (6,554)
Risk Management Fund	19,520	14,807	4,713
Capital Projects Fund	137,065	93,412	43,653
Other Funds	50,903	29,884	21,019
Total Expenditures	\$ 288,675	\$ 225,844	\$ 62,831
Other Financing Sources (Uses)			
General Fund	\$ 3,334	\$ 9,212	\$ (5,878)
Risk Management Fund	-	-	-
Capital Projects Fund	21,416	49,733	(28,317)
Other Funds	5,494	1,339	4,155
Total Other Financing Sources (Uses)	\$ 30,244	\$ 60,284	\$ (30,040)
Other Changes in Fund Equity			
General Fund	\$ (9,471)	\$ (1,290)	\$ (8,181)
Risk Management Fund	-	-	-
Capital Projects Fund	-	-	-
Other Funds	-	-	-
Total Lapsed Appropriations	\$ (9,471)	\$ (1,290)	\$ (8,181)
Net Change in Fund Balances			
General Fund	\$ (17,030)	\$ (2,197)	\$ (14,833)
Risk Management Fund	(2,192)	7,025	(9,217)
Capital Projects Fund	(57,279)	49,022	(106,301)
Other Funds	(15,510)	820	(16,330)
	\$ (92,011)	\$ 54,670	\$ (146,681)

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2009

The General Fund is the chief operating fund of the Department. At the end of the current fiscal year, the General Fund had no unreserved fund balance, but total fund balance reached \$12,100. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved fund balance represents 4.1% of total General Fund expenditures, while total general fund balance represents 14.9% of that same amount.

The fund balance of the Department's General Fund decreased by \$17,030 during the current fiscal year due primarily to decreased state allotted appropriations.

Proprietary Funds

The Department's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, the State Parking Revolving Fund had a decrease in net assets which amounted to \$1,606 and the State Motor Pool Revolving Fund had a decrease in net assets which amounted to \$143. Other factors concerning the finances of the State Parking Revolving fund and the State Motor Pool Revolving Fund have already been addressed in the discussion of the Department's business-type activities.

Fiduciary Funds

The fiduciary funds of the Department consist of Agency Funds which are clearing accounts for funds held by the Department in its role as custodian until the funds are allocated to the individuals, businesses, and others to which they belong. These funds are excluded from the Department's government-wide financial statements because the Department cannot use these funds to finance its operations.

General Fund Budgetary Highlights

The General Fund's expenditure budget increased by \$3,334 over the original budget. The original budget consisted of the appropriations contained in the General Appropriations Act of 2009 (Act 162, Session Laws of Hawaii 2009). The increase was a result of collective bargaining increases, emergency appropriation and other appropriations transferred to the Department.

Capital Asset and Debt Administration

Capital Assets

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2009 amounts to \$183,366 (net of accumulated depreciation). This investment in capital assets includes land and improvements, historic treasures, works of art, buildings and improvements, equipment, furniture and fixtures, and motor vehicles. Significant addition during the current fiscal year included improvements to the Kalanimoku Building and the Capital District Building.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2009

A summary of the Department's capital assets is as follows:

Summary of Capital Assets

June 30, 2009 and 2008

(amounts in thousands)

	Governmental Activities			Business - Type Activities		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Capital assets not being depreciated						
Land and improvements	\$ 88,489	\$ 88,489	\$ -	\$ 10,271	\$ 10,271	\$ -
Historical treasures	24,505	24,505	-	-	-	-
Works of art	17,976	17,406	570	-	-	-
Construction in progress	-	-	-	987	879	108
Total capital assets not being depreciated	130,970	130,400	570	11,258	11,150	108
Capital assets being depreciated						
Land improvements	1,923	1,827	-	-	-	-
Buildings and improvements	40,576	31,535	9,041	54,851	54,851	-
Equipment, furniture and fixtures	12,581	13,129	(548)	212	209	3
Motor vehicles	2,906	2,230	676	5,594	5,511	83
Total capital assets being depreciated	57,986	48,721	9,169	60,657	60,571	86
Less total accumulated depreciation	(31,409)	(30,909)	500	(46,096)	(43,956)	2,140
Total capital assets being depreciated, net	26,577	17,812	8,765	14,561	16,615	(2,054)
Total capital assets, net	<u>\$ 157,547</u>	<u>\$ 148,212</u>	<u>\$ 9,335</u>	<u>\$ 25,819</u>	<u>\$ 27,765</u>	<u>\$ (1,946)</u>

Debt Administration

At the end of the current fiscal year, the Department had total bonded debt outstanding of \$193. The balance of this debt was \$281 at June 30, 2008. This amount comprises debt backed by the full faith and credit of the State allocated to the State Parking Revolving Fund under acts of various Session Laws of Hawaii. Repayment of allocated bond debt is made to the State's General Fund.

The Department's total bond debt decreased by \$88 (31.3%) during the current fiscal year. The key factor in this decrease was the repayments made to the State's General Fund on the allocated bond debt of the State Parking Revolving fund.

Additional information on the Department's bonded debt can be found in Note E of the notes to the basic financial statements.

JUNE 30, 2009

Cash Held in State Treasury

During the year ended June 30, 2009, the Department, including its component unit, recorded a \$5,370 total reduction in the carrying value of its cash held in State Treasury, representing its allocated share of the total estimated unrealized loss resulting from the State of Hawaii's investment in student loan auction rate securities. The reduction in carrying value of cash has been reflected as a reduction of interest and other investment earnings in the various funds of the Department.

Economic Factors and Next Year's Budget

During fiscal 2009, there has been a decrease in visitor arrivals and private building authorizations which has negatively impacted the estimated General Fund growth. The Council on Revenues in March 2010 estimated that the General Fund growth rate would be -2.5% in fiscal 2010 and 6.0% in fiscal 2011. The declining estimated General Fund growth rate could result in additional spending restrictions in fiscal 2010 and a reduction in appropriated amounts and/or spending restrictions in fiscal 2011. The total reduction of the carrying value was \$5,370.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the Department can be found at the Department's website, <http://www.state.hi.us>.

Department of Accounting and General Services
State of Hawaii
Statement of Net Assets
June 30, 2009

	Primary Government				
	Governmental Activities	Business-Type Activities	Total	Component Unit	Total Reporting Entity
ASSETS					
CURRENT ASSETS:					
Cash held in State Treasury (Note C)	\$ 291,060,740	\$ 4,481,765	\$ 295,542,505	\$ 7,142,363	\$ 302,684,868
Cash in bank and on hand	-	-	-	225,440	225,440
Receivables - Federal government	5,738,640	-	5,738,640	-	5,738,640
Receivables - other, net of allowance for doubtful accounts of \$38,368 for Component Unit	-	414,690	414,690	626,271	1,040,961
Inventories and other assets	-	25,923	25,923	-	25,923
Total current assets	296,799,380	4,922,378	301,721,758	7,994,074	309,715,832
NONCURRENT ASSETS:					
Capital assets:					
Land, buildings and other capital assets, net of depreciation (Note D)	157,546,574	25,819,102	183,365,676	45,838,209	229,203,885
Cash held by other state agency	-	-	-	222,010	222,010
Total noncurrent assets	157,546,574	25,819,102	183,365,676	46,060,219	229,425,895
Total assets	\$ 454,345,954	\$ 30,741,480	\$ 485,087,434	\$ 54,054,293	\$ 539,141,727
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	\$ 24,257,248	\$ 178,206	\$ 24,435,454	\$ 228,297	\$ 24,663,751
Accrued wages and employee benefits payable (Note B)	2,094,705	-	2,094,705	283,052	2,377,757
Contract retainage	9,078,109	-	9,078,109	-	9,078,109
Accrued liabilities and other (Note E)	-	139,790	139,790	79,345	219,135
Accrued vacation (Note E)	3,000,000	-	3,000,000	208,680	3,208,680
Net other post-employment benefit liability (Note F)	-	-	-	193,000	193,000
General obligation bonds payable (Note E)	-	49,007	49,007	-	49,007
Due to State of Hawaii	1,339,000	-	1,339,000	30,000	1,369,000
Total current liabilities	39,769,062	367,003	40,136,065	1,022,374	41,158,439
NONCURRENT LIABILITIES :					
Due to State of Hawaii	-	140,962	140,962	-	140,962
Due to others (Note G)	12,102,524	-	12,102,524	-	12,102,524
Deposits	-	27,590	27,590	111,273	138,863
Accrued liabilities and other (Note E)	-	310,898	310,898	-	310,898
Accrued vacation (Note E)	5,120,561	-	5,120,561	255,270	5,375,831
Net other post-employment benefit liability (Note F)	-	412,028	412,028	375,941	787,969
General obligation bonds payable (Note E)	-	144,418	144,418	-	144,418
Total noncurrent liabilities	17,223,085	1,035,896	18,258,981	742,484	19,001,465
Total liabilities	56,992,147	1,402,899	58,395,046	1,764,858	60,159,904
Commitments and contingencies (Notes F and G)					
NET ASSETS					
Invested in capital assets, net of related debt	157,546,574	25,625,677	183,172,251	45,838,209	229,010,460
Restricted for:					
Capital improvement projects	193,356,741	-	193,356,741	-	193,356,741
Other purposes	41,949,225	-	41,949,225	-	41,949,225
Unrestricted	4,501,267	3,712,904	8,214,171	6,451,226	14,665,397
Total net assets	397,353,807	29,338,581	426,692,388	52,289,435	478,981,823
Total liabilities and net assets	\$ 454,345,954	\$ 30,741,480	\$ 485,087,434	\$ 54,054,293	\$ 539,141,727

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

Department of Accounting and General Services
State of Hawaii
Statement of Activities
for the year ended June 30, 2009

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
Administration and support	\$ 2,598,572	\$ -	\$ -	\$ -	\$ (2,598,572)	\$ -	\$ (2,598,572)	
State procurement	1,131,516	-	-	-	(1,131,516)	-	(1,131,516)	
Public building maintenance	28,938,285	-	-	-	(28,938,285)	-	(28,938,285)	
Accounting	2,352,060	-	-	-	(2,352,060)	-	(2,352,060)	
Audit	655,504	-	-	-	(655,504)	-	(655,504)	
Performing and visual arts	5,975,131	-	2,477,814	-	(3,497,317)	-	(3,497,317)	
School repairs and maintenance	71,548	-	-	-	(71,548)	-	(71,548)	
Office leasing	17,691,227	5,470,197	-	-	(12,221,030)	-	(12,221,030)	
Information processing services	17,682,347	3,861,209	-	-	(13,821,138)	-	(13,821,138)	
Other	63,914,450	30,842,656	1,260,378	-	(31,811,416)	-	(31,811,416)	
Capital outlays	138,590,494	-	-	6,694,789	(131,895,705)	-	(131,895,705)	
Total governmental activities	279,601,134	40,174,062	3,738,192	6,694,789	(228,994,091)	-	(228,994,091)	
Business-type activities:								
State Parking Revolving Fund	4,732,719	3,793,732	-	-	-	(938,987)	(938,987)	
State Motor Pool Revolving Fund	2,361,854	2,482,349	-	-	-	120,495	120,495	
Total business-type activities	7,094,573	6,276,081	-	-	-	(818,492)	(818,492)	
Total primary government	\$ 286,695,707	\$ 46,450,143	\$ 3,738,192	\$ 6,694,789	(228,994,091)	(818,492)	(229,812,583)	
Component unit:								
Stadium Authority	\$ 13,185,891	\$ 7,770,636	\$ -	\$ 10,129,765				\$ 4,714,510
General revenues:								
State allotted appropriations, net of lapsed appropriations of \$8,096,340					120,567,962	-	120,567,962	-
Interest and investment income (loss)					(3,380,312)	(165,483)	(3,545,795)	(404,445)
Other					-	(196,598)	(196,598)	-
Total general revenues before transfers					117,187,650	(362,081)	116,825,569	(404,445)
Transfers, net					30,244,444	(568,795)	29,675,649	-
Total general revenues and transfers					147,432,094	(930,876)	146,501,218	(404,445)
Decrease in inventory and other assets					(1,374,902)	-	(1,374,902)	-
Change in net assets					(82,936,899)	(1,749,368)	(84,686,267)	4,310,065
Net assets at July 1, 2008					480,290,706	31,087,949	511,378,655	47,979,370
Net assets at June 30, 2009					\$ 397,353,807	\$ 29,338,581	\$ 426,692,388	\$ 52,289,435

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

Department of Accounting and General Services
State of Hawaii
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Risk Management Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash held in State Treasury (Note C)	\$ 17,617,607	\$ 23,619,808	\$ 216,861,101	\$ 32,962,224	\$ 291,060,740
Receivables - Federal government	-	-	-	5,738,640	5,738,640
Total assets	<u>\$ 17,617,607</u>	<u>\$ 23,619,808</u>	<u>\$ 216,861,101</u>	<u>\$ 38,700,864</u>	<u>\$ 296,799,380</u>
LIABILITIES					
Vouchers and contracts payable	\$ 2,971,537	-	\$ 15,146,541	\$ 6,139,170	\$ 24,257,248
Accrued wages and employee benefits payable (Note B)	1,977,877	12,601	23,329	80,898	2,094,705
Contract retainage	567,590	-	8,334,490	176,029	9,078,109
Due to State of Hawaii	-	-	-	1,339,000	1,339,000
Due to others (Note G)	-	12,102,524	-	-	12,102,524
Total liabilities	<u>5,517,004</u>	<u>12,115,125</u>	<u>23,504,360</u>	<u>7,735,097</u>	<u>48,871,586</u>
Commitments and contingencies (Note F and G)					
FUND BALANCES					
Reserved for:					
Encumbrances	15,458,219	-	81,317,081	5,130,943	101,906,243
Continuing appropriations	-	-	12,103,429	-	12,103,429
Unreserved	<u>(3,357,616)</u>	<u>11,504,683</u>	<u>99,936,231</u>	<u>25,834,824</u>	<u>133,918,122</u>
Total fund balances	<u>12,100,603</u>	<u>11,504,683</u>	<u>193,356,741</u>	<u>30,965,767</u>	<u>247,927,794</u>
Total liabilities and fund balances	<u>\$ 17,617,607</u>	<u>\$ 23,619,808</u>	<u>\$ 216,861,101</u>	<u>\$ 38,700,864</u>	<u>\$ 296,799,380</u>

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

Department of Accounting and General Services
State of Hawaii
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2009

	General Fund	Risk Management Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
State allotted appropriations	\$ 70,293,851	\$ -	\$ 58,370,451	\$ -	\$ 128,664,302
Insurance	-	18,856,949	-	-	18,856,949
Rentals	-	-	-	5,470,197	5,470,197
Interest and investment income (loss)	-	(1,677,364)	-	(1,702,948)	(3,380,312)
Intergovernmental	-	-	-	3,738,192	3,738,192
Other	-	148,071	-	22,393,634	22,541,705
Total revenues	<u>70,293,851</u>	<u>17,327,656</u>	<u>58,370,451</u>	<u>29,899,075</u>	<u>175,891,033</u>
EXPENDITURES					
Administration and support	2,369,116	-	-	69,190	2,438,306
State procurement	1,138,360	-	-	-	1,138,360
Public building maintenance	27,649,710	-	-	1,566,822	29,216,532
Accounting	2,315,038	-	-	-	2,315,038
Audit	664,035	-	-	-	664,035
Performing and visual arts	2,101,741	-	-	4,187,877	6,289,618
Office leasing	11,837,871	-	-	5,849,971	17,687,842
Information processing services	16,475,163	-	-	1,471,804	17,946,967
Other	16,635,431	19,519,696	(11,805)	27,682,497	63,825,819
Capital outlays	-	-	137,078,037	10,074,658	147,152,695
Total expenditures	<u>81,186,465</u>	<u>19,519,696</u>	<u>137,066,232</u>	<u>50,902,819</u>	<u>288,675,212</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,892,614)</u>	<u>(2,192,040)</u>	<u>(78,695,781)</u>	<u>(21,003,744)</u>	<u>(112,784,179)</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	4,745,235	20,809,247	35,513,579	29,959,105	91,027,166
Operating transfers out	<u>(1,411,293)</u>	<u>(20,809,247)</u>	<u>(14,096,829)</u>	<u>(24,465,353)</u>	<u>(60,782,722)</u>
Total other financing sources (uses)	<u>3,333,942</u>	<u>-</u>	<u>21,416,750</u>	<u>5,493,752</u>	<u>30,244,444</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(7,558,672)</u>	<u>(2,192,040)</u>	<u>(57,279,031)</u>	<u>(15,509,992)</u>	<u>(82,539,735)</u>
OTHER CHANGES IN FUND EQUITY					
Decrease in inventory and other assets	(1,374,902)	-	-	-	(1,374,902)
Lapsed appropriations	<u>(8,096,340)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,096,340)</u>
Net change in fund balances	<u>(17,029,914)</u>	<u>(2,192,040)</u>	<u>(57,279,031)</u>	<u>(15,509,992)</u>	<u>(92,010,977)</u>
FUND BALANCES AT JULY 1, 2008	<u>29,130,517</u>	<u>13,696,723</u>	<u>250,635,772</u>	<u>46,475,759</u>	<u>339,938,771</u>
FUND BALANCES AT JUNE 30, 2009	<u>\$ 12,100,603</u>	<u>\$ 11,504,683</u>	<u>\$ 193,356,741</u>	<u>\$ 30,965,767</u>	<u>\$ 247,927,794</u>

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

Department of Accounting and General Services
State of Hawaii
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2009

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Assets
ASSETS				
CURRENT ASSETS:				
Cash held in State Treasury	\$ 291,060,740	\$ -	\$ -	\$ 291,060,740
Receivables - Federal government	5,738,640	-	-	5,738,640
NONCURRENT ASSETS:				
Capital assets:				
Land, buildings, and other capital assets, net of depreciation	-	157,546,574 (1)	-	157,546,574
Total assets	<u>\$ 296,799,380</u>	<u>157,546,574</u>	<u>\$ -</u>	<u>\$ 454,345,954</u>
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	\$ 24,257,248	\$ -	\$ -	\$ 24,257,248
Accrued wages and employee benefits payable	2,094,705	-	-	2,094,705
Contract retainage	9,078,109	-	-	9,078,109
Accrued vacation - current	-	3,000,000 (2)	-	3,000,000
Due to State of Hawaii	1,339,000	-	-	1,339,000
NONCURRENT LIABILITIES:				
Due to others	12,102,524	-	-	12,102,524
Accrued vacation - noncurrent	-	5,120,561 (2)	-	5,120,561
Total liabilities	<u>48,871,586</u>	<u>8,120,561</u>	<u>-</u>	<u>56,992,147</u>
FUND BALANCES/NET ASSETS				
Invested in capital assets, net of related debt	-	157,546,574 (1)	-	157,546,574
Reserved/Restricted for:				
Encumbrances	101,906,243	-	(101,906,243) (3)	-
Continuing appropriations	12,103,429	-	(12,103,429) (3)	-
Capital improvement projects	-	-	193,356,741 (3)	193,356,741
Other purposes	-	-	41,949,225 (3)	41,949,225
Unreserved/Unrestricted:	<u>133,918,122</u>	<u>(8,120,561) (2)</u>	<u>(121,296,294) (3)</u>	<u>4,501,267</u>
Total fund balances/net assets	<u>247,927,794</u>	<u>149,426,013</u>	<u>-</u>	<u>397,353,807</u>
Total liabilities and fund balances/net assets	<u>\$ 296,799,380</u>	<u>\$ 157,546,574</u>	<u>\$ -</u>	<u>\$ 454,345,954</u>

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

Department of Accounting and General Services
State of Hawaii

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2009 (continued)

Total fund balances - governmental funds \$ 247,927,794

Amounts reported for governmental activities in the statement of net assets
are different because:

- (1) Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds. These assets consist of:

Land and improvements	\$ 90,411,757	
Historical treasures and works of art	42,480,945	
Buildings, land and improvements	40,576,064	
Equipment, furniture and fixtures, and motor vehicles	15,486,672	
Accumulated depreciation	<u>(31,408,864)</u>	
Total capital assets		157,546,574

- (2) Accrued vacation is not reported in the governmental funds. (8,120,561)

- (3) Reclassify reserved fund balance/net assets to unrestricted
fund balance/net assets

Total net assets	<u>\$ 397,353,807</u>
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The accompanying notes are an integral part of the financial statements.

Department of Accounting and General Services
State of Hawaii

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
for the year ended June 30, 2009

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
REVENUES				
State allotted appropriations	\$ 128,664,302	\$ -	\$ (8,096,340) (3)	\$ 120,567,962
Insurance	18,856,949	-	-	18,856,949
Rentals	5,470,197	-	-	5,470,197
Interest and investment income	(3,380,312)	-	-	(3,380,312)
Intergovernmental	3,738,192	-	-	3,738,192
Other	22,541,705	-	-	22,541,705
Total revenues	<u>175,891,033</u>	<u>-</u>	<u>(8,096,340)</u>	<u>167,794,693</u>
EXPENDITURES				
Administration and support	2,438,306	160,266 (1,2)	-	2,598,572
State procurement	1,138,360	(6,844) (1,2)	-	1,131,516
Public building maintenance	29,216,532	(278,247) (1,2)	-	28,938,285
Accounting	2,315,038	37,022 (1,2)	-	2,352,060
Audit	664,035	(8,531) (1,2)	-	655,504
Performing and visual arts	6,289,618	(314,487) (1,2)	-	5,975,131
School repairs and maintenance	-	71,548 (1,2)	-	71,548
Office leasing	17,687,842	3,385 (1,2)	-	17,691,227
Information processing services	17,946,967	(264,620) (1,2)	-	17,682,347
Other	63,825,819	88,631 (1,2)	-	63,914,450
Capital outlays	<u>147,152,695</u>	<u>(8,562,201) (1,2)</u>	<u>-</u>	<u>138,590,494</u>
Total expenditures	<u>288,675,212</u>	<u>(9,074,078)</u>	<u>-</u>	<u>279,601,134</u>
Excess (deficiency) of revenues over (under) expenditures	(112,784,179)	9,074,078	(8,096,340)	(111,806,441)
OTHER FINANCING SOURCES (USES) AND OTHER CHANGES				
Net operating transfers	30,244,444	-	-	30,244,444
Decrease in inventory and other assets	(1,374,902)	-	-	(1,374,902)
Lapsed appropriations	<u>(8,096,340)</u>	<u>-</u>	<u>8,096,340 (3)</u>	<u>-</u>
Change in fund balances/net assets	<u>\$ (92,010,977)</u>	<u>\$ 9,074,078</u>	<u>\$ -</u>	<u>\$ (82,936,899)</u>

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

Department of Accounting and General Services
State of Hawaii

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
for the year ended June 30, 2009 (continued)

Change in fund balances - governmental funds	\$ (92,010,977)
--	-----------------

Amounts reported for governmental activities in the
statement of activities are different because:

- (1) Capital asset purchases are reported as expenditures in governmental funds, however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these purchases are:

Capital asset purchases	\$	12,336,869	
Disposal, transfers and adjustments		(16,836)	
Depreciation expense		(2,985,450)	
Excess of capital outlays over depreciation expense and other			9,334,583

- | | |
|---|-----------|
| (2) The increase in accrued vacation is not reported in governmental funds. | (260,505) |
|---|-----------|

- | | |
|---|---|
| (3) Lapsed appropriations are net against appropriations in the statement of activities | - |
|---|---|

Change in net assets	\$ (82,936,899)
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Department of Accounting and General Services
State of Hawaii
Statement of Revenues and Expenditures - Budget and Actual-
General Fund
for the year ended June 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Revenues	\$ 70,293,851	\$ 73,627,793	\$ 70,293,851	\$ (3,333,942)
Expenditures:				
Administration and support	1,179,454	2,725,228	2,365,226	360,002
State procurement	1,216,680	1,277,840	1,065,594	212,246
Public building maintenance	20,389,482	22,679,219	21,588,339	1,090,880
Accounting	2,558,749	2,702,456	2,168,643	533,813
Audit	688,994	745,728	635,277	110,451
Performing and visual arts	2,216,046	2,256,111	2,085,439	170,672
School repairs and maintenance	4,813,844	4,668,460	4,352,876	315,584
Office leasing	11,671,571	11,432,820	10,926,089	506,731
Information processing services	15,775,353	16,258,888	14,774,272	1,484,616
Other	9,783,678	8,881,043	6,481,180	2,399,863
Total expenditures	70,293,851	73,627,793	66,442,935	7,184,858
Excess of revenues over expenditures	\$ -	\$ -	\$ 3,850,916	\$ 3,850,916

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

Department of Accounting and General Services
State of Hawaii
Statement of Revenues and Expenditures - Budget and Actual -
Other Major Funds
for the year ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Risk Management Fund</u>				
Revenues	\$ 21,450,000	\$ 21,450,000	\$ 19,601,236	\$ (1,848,764)
Expenditures:				
Other	<u>21,450,000</u>	<u>21,450,000</u>	<u>19,519,696</u>	<u>1,930,304</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,540</u>	<u>\$ 81,540</u>

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

Department of Accounting and General Services
State of Hawaii
Statement of Net Assets
Proprietary Funds
June 30, 2009

	State Parking Revolving Fund	State Motor Pool Revolving Fund	Total Proprietary Funds
ASSETS			
Current assets:			
Cash held in State Treasury	\$ 1,866,836	\$ 2,614,929	\$ 4,481,765
Accounts receivable - net	76,752	337,938	414,690
Inventories	13,334	12,589	25,923
Total current assets	1,956,922	2,965,456	4,922,378
Noncurrent assets:			
Capital assets:			
Land, improvements, construction-in-progress and other capital assets, net of depreciation	24,096,481	1,722,621	25,819,102
Total assets	<u>\$ 26,053,403</u>	<u>\$ 4,688,077</u>	<u>\$ 30,741,480</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 96,036	\$ 82,170	\$ 178,206
Accrued liabilities	83,035	56,755	139,790
General obligation bonds payable - current	49,007	-	49,007
Total current liabilities	228,078	138,925	367,003
Noncurrent liabilities:			
Due to State of Hawaii	140,962	-	140,962
Net other post-employment benefits obligation	244,032	167,996	412,028
Deposits	27,590	-	27,590
Accrued liabilities and other	192,320	118,578	310,898
General obligation bonds payable - noncurrent	144,418	-	144,418
Total noncurrent liabilities	749,322	286,574	1,035,896
Total liabilities	977,400	425,499	1,402,899
NET ASSETS			
Invested in capital assets, net of related debt	23,903,056	1,722,621	25,625,677
Unrestricted	1,172,947	2,539,957	3,712,904
Total net assets	25,076,003	4,262,578	29,338,581
Total liabilities and net assets	<u>\$ 26,053,403</u>	<u>\$ 4,688,077</u>	<u>\$ 30,741,480</u>

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

Department of Accounting and General Services
State of Hawaii
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
for the year ended June 30, 2009

	State Parking Revolving Fund	State Motor Pool Revolving Fund	Total Proprietary Funds
OPERATING REVENUES			
Parking assessments	\$ 2,599,720	\$ -	\$ 2,599,720
Motor vehicle rentals	-	2,361,600	2,361,600
Parking meter collections	984,162	-	984,162
Traffic fines	195,210	-	195,210
Motor vehicle repairs	-	120,749	120,749
Other	14,640	-	14,640
Total operating revenues	<u>3,793,732</u>	<u>2,482,349</u>	<u>6,276,081</u>
OPERATING EXPENSES			
Depreciation	1,574,135	593,088	2,167,223
Personnel services	1,309,488	887,171	2,196,659
Repairs and maintenance	1,231,806	215,533	1,447,339
Gas and oil	-	512,669	512,669
Special assessments	54,883	41,404	96,287
Other	562,407	111,989	674,396
Total operating expenses	<u>4,732,719</u>	<u>2,361,854</u>	<u>7,094,573</u>
Operating income (loss)	(938,987)	120,495	(818,492)
NONOPERATING REVENUES (EXPENSES)			
Interest and investment income (loss)	(68,297)	(97,186)	(165,483)
Other income (expense)	13,230	(157,000)	(143,770)
Gain (loss) on disposition of capital assets	-	(8,824)	(8,824)
Interest expense	(5,289)	-	(5,289)
Assessment on ceded land revenues	(38,715)	-	(38,715)
Total nonoperating revenues - net	<u>(99,071)</u>	<u>(263,010)</u>	<u>(362,081)</u>
Income (loss) before transfers	(1,038,058)	(142,515)	(1,180,573)
OPERATING TRANSFERS	<u>(568,795)</u>	<u>-</u>	<u>(568,795)</u>
Change in net assets	(1,606,853)	(142,515)	(1,749,368)
Net assets at July 1, 2008	<u>26,682,856</u>	<u>4,405,093</u>	<u>31,087,949</u>
Net assets at June 30, 2009	<u>\$ 25,076,003</u>	<u>\$ 4,262,578</u>	<u>\$ 29,338,581</u>

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

Department of Accounting and General Services
State of Hawaii
Statement of Cash Flows
Proprietary Funds
for the year ended June 30, 2009

	State Parking Revolving Fund	State Motor Pool Revolving Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from parking assessments	\$ 2,605,105	\$ -	\$ 2,605,105
Receipts from motor vehicle rentals	-	2,451,921	2,451,921
Receipts from parking meter collections	980,142	-	980,142
Receipts from motor vehicle repairs	-	120,749	120,749
Receipts from traffic fines	195,210	-	195,210
Other receipts	14,640	-	14,640
Payments for personnel services	(1,185,917)	(802,979)	(1,988,896)
Payments for repairs and maintenance	(1,231,806)	(164,465)	(1,396,271)
Payments for gas and oil	-	(511,696)	(511,696)
Payments for special assessment	(54,883)	(40,111)	(94,994)
Other administrative payments	(587,908)	(116,014)	(703,922)
Net cash provided by operating activities	<u>734,583</u>	<u>937,405</u>	<u>1,671,988</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest from investments and pooled funds	27,724	38,799	66,523
Other receipts	13,230	-	13,230
Loss on investment in State Treasury	(108,029)	(158,191)	(266,220)
Net cash used in investing activities	<u>(67,075)</u>	<u>(119,392)</u>	<u>(186,467)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payments for construction in progress, net of completed repairs	(108,944)	-	(108,944)
Ceded land payment	(38,732)	-	(38,732)
Interest paid on general obligation bonds	(9,790)	-	(9,790)
Principal paid on general obligation bonds	(87,437)	-	(87,437)
Other reimbursement paid	-	(157,000)	(157,000)
Acquisition of capital assets	-	(121,655)	(121,655)
Net cash used in capital and related financing activities	<u>(244,903)</u>	<u>(278,655)</u>	<u>(523,558)</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:			
Operating transfer out to general fund	(568,795)	-	(568,795)
Net cash used in non capital financing activities	<u>(568,795)</u>	<u>-</u>	<u>(568,795)</u>
Net increase (decrease) in cash and cash equivalents	(146,190)	539,358	393,168
Cash and cash equivalents at July 1, 2008	<u>2,013,026</u>	<u>2,075,571</u>	<u>4,088,597</u>
Cash and cash equivalents at June 30, 2009	<u>\$ 1,866,836</u>	<u>\$ 2,614,929</u>	<u>\$ 4,481,765</u>

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

Department of Accounting and General Services
State of Hawaii
Statement of Cash Flows
Proprietary Funds
for the year ended June 30, 2009 (continued)

	<u>State Parking Revolving Fund</u>	<u>State Motor Pool Revolving Fund</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (938,987)	\$ 120,495	\$ (818,492)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,574,135	593,088	2,167,223
(Increase) decrease in assets:			
Accounts receivable - net	1,365	90,320	91,685
Inventories	88	2,490	2,578
Increase (decrease) in liabilities:			
Accounts payable	(25,589)	46,821	21,232
Accrued wages	4,697	3,268	7,965
Accrued vacation	261	(5,385)	(5,124)
Net other post-employment benefit obligation	118,613	86,308	204,921
	<u>1,673,570</u>	<u>816,910</u>	<u>2,490,480</u>
Net cash provided by operating activities	<u>\$ 734,583</u>	<u>\$ 937,405</u>	<u>\$ 1,671,988</u>

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

Department of Accounting and General Services

State of Hawaii

Statement of Net Assets

Component Unit

June 30, 2009

	Stadium Authority
ASSETS	
Current assets:	
Cash:	
Cash in State Treasury	\$ 7,142,363
Cash in bank and on hand	225,440
	<u>7,367,803</u>
Receivables from concessionaire and other, net of allowance for doubtful accounts of \$38,368	548,440
Interest receivable	<u>77,831</u>
Total current assets	7,994,074
Capital assets, net	45,838,209
Cash held by other State agency	<u>222,010</u>
Total assets	<u><u>\$ 54,054,293</u></u>
LIABILITIES	
Current liabilities:	
Vouchers payable	\$ 228,297
Accrued payroll	283,052
Accrued vacation - due within one year	208,680
Net other post-employment benefit liability - due within one year	193,000
Due to State General Fund for advances for Imprest Fund	30,000
Other	<u>79,345</u>
Total current liabilities	1,022,374
Accrued vacation - due in more than one year	255,270
Licensees' deposits	111,273
Net other post-employment benefit liability	<u>375,941</u>
Total liabilities	<u>1,764,858</u>
NET ASSETS	
Invested in capital assets	45,838,209
Unrestricted	<u>6,451,226</u>
Total net assets	52,289,435
Total liabilities and net assets	<u><u>\$ 54,054,293</u></u>

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

Department of Accounting and General Services
State of Hawaii

Statement of Revenues, Expenses, and Change in Net Assets

Component Unit

for the year ended June 30, 2009

	Stadium Authority
OPERATING REVENUES:	
Rentals from attractions	\$ 5,138,440
Commissions from food and beverage concessionaire	1,424,851
Parking	664,633
Advertising	217,057
Other	325,655
Total operating revenues	<u>7,770,636</u>
OPERATING EXPENSES:	
Personnel services	4,341,496
Depreciation	4,187,112
Utilities	1,176,104
Repairs and maintenance	461,297
Special fund assessments	530,504
Security	311,218
Professional services	210,921
Other	1,967,239
Total operating expenses	<u>13,185,891</u>
Operating loss	(5,415,255)
NONOPERATING REVENUES (EXPENSES):	
Interest income	245,417
Loss on amounts held in State Treasury	(649,862)
Total nonoperating expenses, net	<u>(404,445)</u>
Loss before capital contributions	(5,819,700)
CAPITAL CONTRIBUTIONS	<u>10,129,765</u>
Change in net assets	4,310,065
Net assets at July 1, 2008	<u>47,979,370</u>
Net assets at June 30, 2009	<u><u>\$ 52,289,435</u></u>

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

Department of Accounting and General Services
State of Hawaii

Statement of Cash Flows
Component Unit
for the year ended June 30, 2009

	Stadium Authority
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 7,812,574
Cash paid to suppliers	(4,681,491)
Cash paid to employees	(4,008,205)
Net cash used in operating activities	<u>(877,122)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of capital assets	(1,202,009)
Interest from investments	167,586
Loss on amounts held in State Treasury	(649,862)
Net cash used in investing activities	<u>(1,684,285)</u>
Net decrease in cash	(2,561,407)
Cash at July 1, 2008 (including \$240,436 of cash held by other state agency)	<u>10,151,220</u>
Cash at June 30, 2009 (including \$222,010 of cash held by other state agency)	<u><u>\$ 7,589,813</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (5,415,255)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	4,187,112
Decrease in receivables from concessionaires and other	41,938
Increase (decrease) in liabilities:	
Vouchers payable	(21,137)
Accrued payroll	19,440
Accrued vacation	17,652
Post-employment liability	296,199
Licensees' deposits	(11,957)
Other	8,886
Net cash used in operating activities	<u><u>\$ (877,122)</u></u>
Supplemental disclosure of noncash capital and related financing activity:	
Capital assets contributed	<u><u>\$ 10,129,765</u></u>

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

Department of Accounting and General Services
State of Hawaii

Statement of Fiduciary Net Assets
June 30, 2009

	<u>Agency Funds</u>
ASSETS	
Cash held in State Treasury (Note C)	\$ (652,396)
Due from State Agency	<u>6,086,184</u>
Total assets	<u>5,433,788</u>
LIABILITIES	
Accrued wages and employee benefits payable	22,222
Held for individuals, businesses and others	<u>5,411,566</u>
Total liabilities	<u>5,433,788</u>
NET ASSETS	
Total net assets	<u><u>\$ -</u></u>

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

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Department of Accounting and General Services (DAGS) was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of DAGS is to provide professional and technical expertise to state agencies and to enforce compliance with accounting and internal control systems.

The accompanying basic financial statements of DAGS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB) which 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 pronouncements. The proprietary funds and component unit have elected not to apply any FASB pronouncements issued subsequent to November 30, 1989.

DAGS has defined its financial reporting entity in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. This statement establishes standards for defining and reporting on the financial reporting entity. The basic criterion for including a potential component unit within the financial reporting entity is financial accountability. Other criteria include legal standing and fiscal dependency.

Based on the application of these criteria, DAGS' financial reporting entity consists of the Department and the Stadium Authority, a component unit of the State that is administratively attached to DAGS. The accompanying financial statements present the financial position of DAGS and the various funds and fund types and the changes in financial position of DAGS, the various funds and fund types. The financial statements are presented as of June 30, 2009, and for the year then ended.

The following is a summary of significant accounting policies:

1. Reporting Entity - DAGS is part of the executive branch of the State. DAGS' financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii (State) that is attributable to the transactions of DAGS. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes DAGS' assets, liabilities, net assets and financial activities.
2. Government-wide and Governmental Fund Financial Statements – The basic financial statements include both government-wide (based on the department as a whole) and fund financial statements. The government-wide financial statements include a statement of net assets and a statement of activities prepared using full accrual accounting for all of DAGS activities. This approach includes not just current assets

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-wide and Governmental Fund Financial Statements (continued) –

and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and accrued vacation payable). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The statement of net assets is designed to display the financial position of DAGS. DAGS reports all capital assets in the statement of net assets and reports depreciation expense in the statement of activities. The net assets are reported in three categories: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotted appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are presented as reserves of fund balances.

Portions of fund balances are also reserved for the following:

- Encumbrances are recorded obligations in the form of purchase orders or contracts.
- Continuing appropriations, which include specific legislative appropriations, do not lapse at the end of the year.

Unreserved fund balances represents resources that have not been internally designated.

Financial statements are provided for DAGS' governmental, proprietary, and fiduciary funds and its component unit. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements

June 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2009, has been reported only in the government-wide financial statements.

4. Fund Accounting – The accounts of DAGS are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each fund's assets, liabilities, fund equity, revenues and expenditures.

The financial activities of DAGS that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General Fund – The general fund is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Special Revenue Funds – Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trust) that are restricted to expenditures for specified purposes. Revenues are primarily from assessments and fees. DAGS' major special revenue fund is as follows:

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk Management Fund – This fund was established by DAGS to account for financial resources used for the State's comprehensive risk management and insurance program.

Capital Projects Fund – The capital projects fund is used to account for DAGS' construction projects and the related sources of financing (other than those financed by the proprietary fund types).

The nonmajor governmental funds are comprised of Special Revenue Funds which are used to account for the financial resources obtained from specific revenue sources and used for restricted purposes (other than expendable trusts or capital projects).

5. Proprietary Funds – 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. DAGS uses proprietary funds to account for certain of its ongoing operations. The following are DAGS' proprietary fund types:

Enterprise Fund – This fund is used to account for an operation that is financed and operated in a manner similar to a private business enterprise, where the intent is that the costs of providing services are to be financed or recovered primarily through user charges. DAGS' Enterprise Fund consists of the State Parking Revolving Fund.

Internal Service Fund – This fund is used to account for the recovery of the costs of vehicles through rental charges to other state agencies. DAGS' Internal Service Fund consists of the State Motor Pool Revolving Fund.

6. Fiduciary Fund – Fiduciary funds are used to account for assets being held for the benefit of a third party and cannot be used to address activities or obligations of the department. These funds are not incorporated into the government-wide financial statements. DAGS' Fiduciary Funds consists of Agency Funds that are used to account for the receipt and disbursement of cash by DAGS, in a custodial capacity.
7. Component Unit – The Stadium Authority's operations are reported as an Enterprise Fund, which is described under the proprietary fund types. The Stadium Authority issues separate financial statements that may be obtained by writing to the Stadium Authority.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements

June 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Appropriations - An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. Except for those related to capital projects, allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year.
9. Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.
10. Cash held in State Treasury - The Department's cash, as well as cash from other State agencies and departments, are pooled and initially deposited in financial institutions. Cash that is not required for immediate payments is invested by the Department of Budget and Finance, State of Hawaii, primarily in U.S. government securities, certificates of deposits, repurchase agreements, and student loan auction rate securities.

Information relating to cash in State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount of balances in the cash pool and the collateralization of amounts deposited in financial institutions, as well as custodial credit risk, interest rate risk, and concentration of credit risk, to which cash held in State Treasury are subject to, are included in the Comprehensive Annual Financial Report (CAFR) of the State of Hawaii.

Interest income and investment earnings and losses are allocated to the various department and agencies based upon their average invested balance for the period.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Employee Benefit Costs – Costs for pension, health, social security and workers' compensation benefits for governmental funds are recorded by the funds budgeted to make the expenditure. These costs relating to the General Fund are not charged to the Department by the State whereas costs applicable to the Special Revenue Funds and Capital Projects Fund are reflected as expenditures in the respective fund. Costs applicable to the proprietary fund types are reflected as expenses in the Enterprise Fund and the Internal Service Fund.

12. Accumulated Vacation and Sick Leave – Effective July 1, 2004, eligible employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of unused vacation leave as a liability. Liabilities for vacation pay are accumulated at the end of each accounting period and adjusted to current salary levels.

Effective July 1, 2004, eligible employees employed are credited with sick leave at a rate of one and three-quarter days per month. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DAGS' statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employee's Retirement System of the State of Hawaii (ERS).

13. Intrafund and Interfund Transactions - Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the government-wide financial statements.

**Department of Accounting and General Services
State of Hawaii**

Notes to the Financial Statements
June 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Inventories - Inventory of materials and supplies of the proprietary fund are stated at the lower of cost (first in, first out method) or market.
15. Capital Assets – Capital assets, which include, land and improvements, historical treasures and works of art, buildings, and improvements, equipment, furniture, and fixtures, and vehicles are reported in the government-wide financial statements. Capital assets are assets which have a cost of \$5,000 or more for equipment, furniture and fixtures and a cost of \$100,000 or more for buildings and improvements at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide, proprietary funds and component unit financial statements.

Capital assets are depreciated in the government-wide, proprietary funds and component unit financial statements on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land, certain land improvements in the component unit, historical treasures and works of art, and construction-in-progress. Generally, estimated useful lives are as follows:

Buildings and improvements	30 years
Stadium structure (Component Unit)	20 – 40 years
Equipment, furniture and fixtures	5 – 15 years
Motor vehicles	10 years

DAGS also coordinates construction projects for State buildings and public school facilities throughout the State. Because these assets are constructed for use by other State departments and not DAGS, the related construction-in-progress for these projects is not recorded as construction-in-progress in the capital assets of DAGS.

16. Use of Estimates - In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenditures, and other financing sources and uses during the reporting period. Actual results could differ from those estimates.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE B - BUDGETING AND BUDGETARY CONTROL

DAGS' annual budget is prepared on the cash basis utilizing encumbrance accounting. The budget is enacted by the State Legislature.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

For purposes of budgeting, DAGS' budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statements of revenues and expenditures – budget and actual, are presented on the budgetary basis. A reconciliation of the general and major special revenue funds' revenues in excess of expenditures and expenditures in excess of revenues on a budgetary basis for the year ended June 30, 2009, to the general and major special revenue funds' revenues in excess of expenditures and expenditures in excess of revenue presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to \$1,977,878 in the general fund for the period from June 16, 2009 through June 30, 2009, are to be funded with monies budgeted for fiscal 2010. In addition, at June 30, 2009, DAGS accrued expenditures of \$1,379,741 in the general fund for certain goods and services received through June 30, 2009, which DAGS will fund with monies budgeted for fiscal 2010. Accordingly, these amounts are excluded from the statements of revenues and expenditures – budget and actual. For accounting purposes these amounts are reflected in the government-wide and governmental fund financial statements at June 30, 2009, in accordance with accounting principles generally accepted in the United States of America.

In fiscal 2008, under section 78-13 HRS, salaries and wages for the period from June 16, 2008 to June 30, 2008, were funded with monies budgeted for fiscal 2009. In addition, at June 30, 2008, DAGS accrued certain goods and services received through June 30, 2008, which DAGS funded with monies budgeted for fiscal 2009. Accordingly, these amounts are included in the statement of revenues and expenditures – budget and actual, for the year ended June 30, 2009. These salaries, wages, goods and services aggregated \$1,938,031 for the general fund.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

The following schedule reconciles the general and major special revenue funds' budgetary amounts to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis) for the fiscal year ended June 30, 2009.

	General Fund	Risk Management Fund
	<u> </u>	<u> </u>
Excess of revenues over expenditures (expenditures over revenues) - actual on budgetary basis	\$ 3,850,916	\$ 81,540
Current year's appropriations included in reserved for encumbrances at June 30, 2009	6,564,443	-
Expenditures for liquidation of prior years' encumbrances	(19,888,385)	-
Fiscal 2008 salaries, wages and other expenditures funded by fiscal 2009 budget	1,938,031	-
Fiscal 2009 salaries and wages funded by fiscal 2010 budget under Section 78-13 HRS	(1,977,878)	-
Fiscal 2009 expenditures funded by fiscal 2010 budget	(1,379,741)	-
Reduction in carrying value of cash in State Treasury	<u>-</u>	<u>(2,273,580)</u>
Excess of revenues over expenditures (expenditures over revenues) - GAAP basis	<u>\$ (10,892,614)</u>	<u>\$ (2,192,040)</u>

NOTE C - CASH HELD IN STATE TREASURY

The Department's cash is held in the State Treasury. Such cash are pooled with cash from other State agencies and departments. Cash that is not required for immediate payments are invested by the Department of Budget and Finance, State of Hawaii.

At June 30, 2009, the State's investments included student loan auction rate securities.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE C – CASH HELD IN STATE TREASURY (continued)

Liquidity for student loan auction rate securities was typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. In 2008, auctions had failed and investors without the ability to hold such securities until maturity have realized significant losses. In the event of a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature or the State of Hawaii is able to sell the securities to third parties. The student loan auction rate securities are reported by the State of Hawaii at estimated fair value, which is generally calculated using the present value of projected cash flows methodology.

During the year ended June 30, 2009, DAGS recorded a reduction in the carrying value of its cash held in State Treasury representing its allocated share of total estimated unrealized loss resulting from the State of Hawaii's investment in student loan auction rate securities. The reduction in the carrying value of DAGS' cash held in State Treasury has been reflected as a reduction of interest and other investment earnings in the various funds of DAGS, as follows:

Risk management fund	\$ 2,273,580
Other governmental funds	1,764,816
Fiduciary fund	415,320
Proprietary funds	266,220
Component unit	649,862
	<hr/>
	\$ 5,369,798
	<hr/>

Department of Accounting and General Services
State of Hawaii
Notes to the Financial Statements
June 30, 2009

NOTE D - CAPITAL ASSETS

Capital assets activity for governmental activities and business-type activities for the year ended June 30, 2009, were as follows:

	Governmental Activities		
	Beginning Balance July 1, 2008	Additions	Ending Balance June 30, 2009
Capital assets not being depreciated -			
Land	\$ 88,488,716	\$ -	\$ 88,488,716
Historical treasures	24,504,658	-	24,504,658
Works of art	17,406,541	581,746	17,976,287
Total capital assets not being depreciated	130,399,915	581,746	130,969,661
Capital assets being depreciated -			
Land improvements	1,827,246	95,795	1,923,041
Buildings and improvements	31,534,822	9,041,242	40,576,064
Equipment, furniture and fixtures	13,129,371	1,795,955	12,580,438
Motor vehicles	2,229,579	822,131	2,906,234
Total capital assets being depreciated	48,721,018	11,755,123	57,985,777
Less accumulated depreciation -			
Land improvements	(278,324)	(131,396)	(409,720)
Buildings and improvements	(18,815,571)	(1,346,974)	(20,162,545)
Equipment, furniture and fixtures	(9,637,227)	(1,359,621)	(8,656,246)
Motor vehicles	(2,177,820)	(147,459)	(2,180,353)
Total accumulated depreciation	(30,908,942)	(2,985,450)	(31,408,864)
Total capital assets being depreciated, net	17,812,076	8,769,673	26,576,913
Total capital assets, net	\$ 148,211,991	\$ 9,351,419	\$ 157,546,574

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements

June 30, 2009

NOTE D - CAPITAL ASSETS (continued)

	Business-Type Activities		
	Balance July 1, 2008	Additions	Deductions
Capital assets not being depreciated -			
Land and improvements	\$ 10,271,053	\$ -	\$ -
Construction in progress	878,482	610,673	(501,729)
Total capital assets not being depreciated	11,149,535	610,673	(501,729)
Capital assets being depreciated -			
Buildings and improvements	54,850,990	-	-
Equipment, furniture and fixtures	208,423	3,288	(184)
Motor vehicles	5,511,176	132,922	(49,733)
Total capital assets being depreciated	60,570,589	136,210	(49,917)
Less accumulated depreciation -			
Buildings and improvements	(40,458,191)	(1,565,231)	-
Equipment, furniture and fixtures	(180,835)	(14,050)	184
Motor vehicles	(3,316,548)	(587,942)	26,354
Total accumulated depreciation	(43,955,574)	(2,167,223)	26,538
Total capital assets being depreciated, net	16,615,015	(2,031,013)	(23,379)
Total capital assets, net	\$ 27,764,550	\$ (1,420,340)	\$ (525,108)

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE D - CAPITAL ASSETS (continued)

Depreciation expense was charged to functions of DAGS as follows:

Governmental activities:

Administration and support	\$ 146,397
State procurement	34,287
Public building maintenance	550,860
Accounting	25,723
Audit	6,092
Performing and visual arts	274,979
Office leasing	3,385
Information processing services	1,785,956
Other	157,771
Total depreciation expense - governmental activities	<u>\$ 2,985,450</u>

Business-type activities:

Parking control	\$ 1,574,135
Motor pool	593,088
Total depreciation expense - business-type activities	<u>\$ 2,167,223</u>

DAGS expends funds for land improvements and buildings which will be utilized by other State departments and agencies. Accordingly, the capital outlays for these projects are not capitalized on the statement of net assets by DAGS. During the year ended June 30, 2009, DAGS had capital outlays of \$147,152,695 for these projects. At June 30, 2009, the \$99,936,231 unreserved fund balance in the Capital Projects Fund is primarily available for encumbrances related to these projects. In addition, DAGS incurs expenditures related to the occupancy and repairs and maintenance of certain buildings utilized by other State departments and agencies.

DAGS has also entered into contract commitments totaling \$46,564,000 for certain construction projects benefiting other State departments to be financed from Federal grants on a reimbursement basis. Such amounts have not been reflected as encumbrances in the financial statements as the related grant revenue has not yet been earned.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE D - CAPITAL ASSETS (continued)

Capital assets activity for DAGS' component unit for the year ended June 30, 2009, were as follows:

	Stadium Authority		
	Balance July 1, 2008	Additions	Balance June 30, 2009
Capital assets not being depreciated -			
Land and improvements	\$ 11,518,621	\$ -	\$ 11,518,621
Construction in progress	1,589,220	10,148,191	11,715,866
Total capital assets not being depreciated	13,107,841	10,148,191	23,234,487
Capital assets being depreciated -			
Stadium structure	98,563,903	21,545	98,585,448
Equipment, furniture and fixtures	6,763,798	1,183,583	7,928,106
Total capital assets being depreciated	105,327,701	1,205,128	106,513,554
Less accumulated depreciation -			
Stadium structure	(73,501,463)	(3,938,171)	(77,439,634)
Equipment, furniture and fixtures	(6,240,532)	(248,941)	(6,470,198)
Total accumulated depreciation	(79,741,995)	(4,187,112)	(83,909,832)
Total capital assets being depreciated, net	25,585,706	(2,981,984)	22,603,722
Total capital assets, net	\$ 38,693,547	\$ 7,166,207	\$ 45,838,209

Depreciation expense for the year ended June 30, 2009, for DAGS' component unit totaled \$4,187,112.

NOTE E - LONG-TERM OBLIGATIONS

Changes in accrued vacation payable during the year ended June 30, 2009, were as follows:

	Primary Government Governmental Activities	Component Unit Stadium Authority
Balance, July 1, 2008	\$ 7,860,056	\$ 446,298
Net increase in accrued vacation payable	260,505	17,652
Balance, June 30, 2009	8,120,561	463,950
Less current portion	3,000,000	208,680
Noncurrent portion	\$ 5,120,561	\$ 255,270

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE E - LONG-TERM OBLIGATIONS (continued)

Long-term debt obligations of general obligation bonds allocated to the State Parking Revolving Fund were authorized under acts of various Session Laws of Hawaii. Repayment of allocated bond debts are made to the State's General Fund. Details of allocated bond debts at June 30, 2009, are as follows:

4.00% - 5.00% General obligation refunding bonds, Series CI, of \$550,212 issued in November 1993 under Act 344, Session Laws of Hawaii 1993; annual principal payments of \$36,685 beginning November 1, 1996 through November 1, 2003, and \$36,676 beginning November 1, 2004 through November 1, 2010; semi-annual interest payments due November 1 and May 1; maturing in November 2010.	\$ 73,353
5.15% - 6.40% General obligation bonds, Series BW, of \$20,800 issued in March 1992 under Act 300, Session Laws of Hawaii 1995; annual principal payments of \$1,156 beginning March 1, 1995 through March 1, 1996; \$1,155 beginning March 1, 1997 through March 1, 2002; \$1,155 beginning March 1, 2011 and increasing incrementally to \$1,155 through March 1, 2012; semi-annual interest payments due September 1 and March 1; maturing on March 1, 2012.	<u>2,291</u>
Subtotal carried forward	\$ 75,644

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE E –LONG-TERM OBLIGATIONS (continued)

Subtotal brought forward	\$ 75,644
3.40% - 5.50% General obligation refunding bonds, Series CW, of \$1,254 issued in August 2001 under Act 3, Session Laws of Hawaii 2001; annual principal payments of \$89 beginning August 1, 2005 and increasing incrementally to \$146 through August 1, 2015; semi-annual interest payments due February 1 and August 1; maturing in August 15, 2015.	835
3.60% - 5.25% General obligation refunding bonds, Series CY, of \$2,394 issued in February 2002 under Act 3, Sessions Laws of Hawaii 2002; annual principal payments of \$216 beginning February 1, 2007 and increasing incrementally to \$326 through February 1, 2015; semi-annual interest payments due February 1 and August 1; maturing on August 15, 2015.	1,703
2.80% - 5.00% General obligation refunding bonds, Series DB, of \$124,267 issued in September 2003 under Act 116, Session Laws of Hawaii 2003; annual principal payments of \$11,307 beginning September 1, 2008 and increasing incrementally to \$16,764 through September 1, 2016; semi-annual interest payments due March 1 and September 1; maturing on September 1, 2016.	112,960
5.00% General obligation refunding bonds, Series DG, of \$2,283 issued in June 2005 under Act 42, Session Laws of Hawaii 2004; annual principal payments of \$206 beginning July 1, 2009 and increasing incrementally to \$307 through July 1, 2017; semi-annual interest payments due January 1 and July 1; maturing on July 1, 2017.	2,283
Total bonds payable	193,425
Less current installments	(49,007)
Bonds payable, net of current installments	\$ 144,418

**Department of Accounting and General Services
State of Hawaii**

Notes to the Financial Statements
June 30, 2009

NOTE E –LONG-TERM OBLIGATIONS (continued)

Debt service requirements to maturity on general obligation bonds payable are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 49,007	\$ 3,292	\$ 52,299
2011	50,767	1,470	52,237
2012	14,774	443	15,217
2013	14,317	312	14,629
2014	15,061	249	15,310
2015-2018	49,499	344	49,843
	<u>\$ 193,425</u>	<u>\$ 6,110</u>	<u>\$ 199,535</u>

Accrued liabilities of the business-type activities at June 30, 2009, were as follows:

Accrued vacation payable	\$ 344,099
Accrued wages payable	83,969
Accrued worker's compensation	21,800
Accrued interest payable	820
	<u>450,688</u>
Less current portion	139,790
Noncurrent portion	<u>\$ 310,898</u>

NOTE F - RETIREMENT BENEFITS

Employees Retirement System of the State of Hawaii -

Substantially all employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS 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. That 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 noncontributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security were precluded from the noncontributory plan. The noncontributory plan provided for reduced benefits and covered 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 employee contributions. All benefits

Department of Accounting and General Services
State of Hawaii
Notes to the Financial Statements
June 30, 2009

NOTE F - RETIREMENT BENEFITS (continued)

vest after five and ten years of credited service under the contributory and noncontributory plan, 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 from July 1, 2006 are required to join the hybrid plan.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% 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 the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2008, 2007, and 2006 were approximately \$377,475,000, \$341,896,000, and \$318,144,000, respectively. The State contributed 100% of its required contributions for those years. Contribution requirements and covered payroll information for the year ended June 30, 2009, is not yet available.

Postemployment Healthcare and Life Insurance Benefits-

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) which replaced the Hawaii Public Employer Health Fund was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits under this plan.

Department of Accounting and General Services
State of Hawaii
Notes to the Financial Statements
June 30, 2009

NOTE F - RETIREMENT BENEFITS (continued)

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

For employees hired between June 30, 1996 and 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' monthly Medicare or non-Medicare premium. For employees 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 healthcare premium. Retirees can elect a family plan to cover dependents.

For employees hired after June 30, 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' monthly Medicare or non-Medicare premium based on the self plan. For employees hired after June 30, 2001, 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 healthcare premium. Only single plan coverage is provided for retirees in this category. Retirees can elect a family plan but must pay the difference.

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the State Parking Revolving Fund, State Motor Pool Revolving Fund and Stadium Authority. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Department's total Agency and special revenue fund contribution for the year ended June 30, 2009 was not material to the Department.

Department of Accounting and General Services
State of Hawaii
Notes to the Financial Statements
June 30, 2009

NOTE F - RETIREMENT BENEFITS (continued)

The following is a summary of changes in postemployment liability for its business-type activities and component unit during the fiscal year ended June 30, 2009:

	Business-Type Activities	Component Unit
Balance, July 1, 2008	\$ 207,107	\$ 272,742
Additions	339,890	472,801
Deductions	(134,969)	(176,602)
Balance, June 30, 2009	412,028	568,941
Less current portion	-	193,000
Noncurrent portion	<u>\$ 412,028</u>	<u>\$ 375,941</u>

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

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

NOTE G - COMMITMENTS AND CONTINGENCIES

Litigation -

DAGS is involved in several lawsuits and complaints which arose in the normal course of operations. Losses not covered by insurance are typically paid through an appropriation from the State's General Fund. Accordingly, the management of DAGS is of the opinion that the outcome of these lawsuits and complaints will not have a material adverse effect on the financial position of DAGS.

Insurance -

The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation, however, the State has property, crime and other liability insurance policies in force through various outside insurance carriers to mitigate this risk. The State generally retains the risk of losses up to deductible amounts per occurrence, and for amounts over the coverage limits. Insurance coverages are subject to various exclusions as specified in the insurance policies. Losses not covered by the insurance policies are paid by DAGS' Risk Management Fund or through Legislative Appropriation.

Department of Accounting and General Services
State of Hawaii
Notes to the Financial Statements
June 30, 2009

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Insurance (continued) -

Insurance coverage for the policy year December 1, 2008 through December 1, 2009, are summarized below.

The State has real and personal property insurance covering risk of direct physical loss including fire, named windstorms, flood, tsunami, and earthquakes with a limit of loss of \$175,000,000 per occurrence. Deductibles are 3% of loss subject to a \$1,000,000 minimum per occurrence for windstorm, flood, tsunami, and earthquake. For other losses, the deductible is \$1,000,000 per occurrence.

The State has terrorism insurance with a limit of loss of \$50,000,000 with a \$50,000 per occurrence deductible and subject to the limitations of the Federal Terrorism Risk Insurance Act.

The State has liability insurance covering bodily injury and property damage, personal and advertising injury, automobile and watercraft liability, public errors and omissions liability, employment practices, dam and terrorism liability. Coverage limits are \$10,000,000 in aggregate with a \$4,000,000 per occurrence deductible .

The State has crime insurance for various types of coverage with a loss limit of \$10,000,000 per occurrence, with a \$500,000 deductible per occurrence.

The State is self-insured for worker compensation and unemployment benefits for its employees. These benefits are administered by other State departments.

DAGS' Risk Management Office handles tort claims and property and automobile claims of \$10,000 or less for most departments of the State. Claims over \$10,000 are handled by the State's Department of the Attorney General. Losses of \$10,000 or less are paid from DAGS' Risk Management Fund. DAGS has not recorded a liability for unpaid claims of \$10,000 or less because management of DAGS has determined that the aggregate liability was not significant at June 30, 2009.

Deferred Compensation Plan -

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

Department of Accounting and General Services
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Notes to the Financial Statements
June 30, 2009

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Deferred Compensation Plan (continued) -

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.

Operating Leases –

DAGS Office Leasing Program is responsible for assisting State agencies in the leasing of office space. DAGS negotiates lease terms and conditions, and prepares lease contract documents. For certain of the leases, DAGS receives general fund appropriations to pay the lease rents for other State Agencies. For other leases, DAGS makes the lease payments and requests reimbursements from other State Agencies. The future minimum rent payments for years subsequent to June 30, 2009 for certain office space which DAGS pays the lease rents under non-cancelable operating leases and which expire at various dates through June 2028 are as follows:

<u>Years ending June 30,</u>	
2010	\$ 14,396,590
2011	12,358,397
2012	10,170,104
2013	8,786,134
2014	8,083,138
Thereafter	<u>37,622,626</u>
	<u><u>\$ 91,416,989</u></u>

Included in the above schedule are certain leases expiring in November 2018 and May 2020 for certain buildings which provide that the State will own the buildings at the end of the lease term. Substantially all the space in these buildings are utilized by other State Agencies.

Total rent expenditures for the year ended June 30, 2009 approximated \$14,805,738.

Accumulated Sick Leave –

Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2009,

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NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Accumulated Sick Leave (continued) –

approximated \$27,204,000 for the governmental fund types and approximately \$1,164,000 and \$1,386,500 for the proprietary funds and component unit, respectively.

Ceded Lands –

In 1898, the Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the ceded lands) back to the State to be held as a public trust for the support of the public schools and other public educational institutions, for the betterment of the conditions of native Hawaiians, for the development of farm and home ownership, for the making of public improvements and for provision of lands for public use.

In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs (OHA) to administer and manage the proceeds and income derived from a pro rata portion of the ceded lands for native Hawaiians.

In 1979, the State Legislature adopted HRS Chapter 10, which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the ceded lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that HRS Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public land trust.

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, Session Laws of Hawaii (SLH) of 1990, which (1) defined "public land trust" and "revenue," (2) specified that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of the conditions of native Hawaiians, and (3) established a process for OHA and the State Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period from June 16, 1980 through June 30, 1991. Since fiscal 1992, the State, through its departments and agencies, has been paying 20% of "revenue" to OHA on a quarterly basis.

In 1993, the State Legislature enacted Act 35, SLH of 1993, appropriating \$136.5 million to pay the amount determined to be OHA's claims, with interest, for the period from June 16, 1980 through June 30, 1991.

In January 1994, OHA and its Board of Trustees (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (First Circuit) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and alleging that the State has failed to

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs seek an accounting for all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damage amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs, thereafter, filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies it receives from (1) Airports Division's in-bond duty-free airport concession (including receipts from the concessionaire's off-airport sales operations); (2) the State-owned and operated Hilo Medical Center; (3) the State's rental public housing projects and affordable housing developments; and (4) interest income, including investment earnings (collectively, the Sources). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the First Circuit Court filed an order granting the Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting the Plaintiffs' four motions for partial summary judgment was granted, and all proceedings in the suit have been stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw., 388 (2001) that Act 304 was effectively repealed by its own terms, and that there were no judicially manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See *OHA v. State*, 96 Haw., 388 (2002). The Hawaii Supreme Court dismissed the case for lack of justifiability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. The State Legislature took no action during the 2002 legislative session, and the State's payments of 20% of "revenue" were discontinued as of the first quarter in fiscal 2002.

The State Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the ceded lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the

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Notes to the Financial Statements
June 30, 2009

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of ceded lands to OHA, if federal or state law did not preclude all or any portion of the receipts from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipts to OHA would not cause the state agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or state agency. During the 2003 legislative session, the State Legislature appropriated monies from the various funds into which the ceded lands receipts had been deposited after the decision in *OHA I* was issued and the state agencies ceased making payments to OHA, and directed the state agencies to pay them to OHA.

OHA continues to pursue its claims for a portion of the revenues from the Sources and other ceded lands that it made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA, et al. v. State of Hawaii, et al.*, Civil No. 03-1-1505-07 (*OHA II*). There follows additional background information pertinent to *OHA II*. In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report (IG Report) concluding that from 1992 to 1995, the Hawaii Department of Transportation's payment to OHA of \$28.2 million was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Hawaii Attorney General disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were simply an operating cost of the airports, and thus not a diversion of airport revenues in violation of federal law. In April 1997, the Acting Administrator of the FAA concurred in writing (FAA Memorandum), with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the First Circuit Court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Hawaii Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position, set forth in the IG Report, changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In October 1997, Public Law 105-66, 1997 HR 2169 (Forgiveness Act) was enacted into federal law. The Forgiveness Act essentially provides that in exchange for there being no further payments of airport revenues for claims related to ceded lands, any such payments received prior to April 1, 1996 need not be repaid. The Hawaii Attorney General submitted the Forgiveness Act to the Hawaii Supreme Court ("Court") in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties submit supplemental briefs to address whether the Forgiveness Act affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro-rata share of airport monies violated federal law, and that there was no live, ripe controversy regarding those payments because the Forgiveness Act relieved the State and OHA of any obligation to return improper past payments.

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Notes to the Financial Statements
June 30, 2009

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* have now sued the State for alleged breaches of fiduciary duties as purported trustee of the ceded lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, alleged violations of the Contract Clause of the U.S. Constitution, and alleged misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior \$28.2 million payments in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of the Forgiveness Act and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also seek declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and seeks appointment of an independent trustee to temporarily replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from the sources other than airport revenues. The State filed a motion to dismiss OHA's complaint in *OHA II* which the court granted in an order filed on December 26, 2003. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Court affirmed the First Circuit Court's order dismissing OHA's complaint in a decision issued September 9, 2005. On December 23, 2005, the Court granted OHA's motion for reconsideration and affirmed the circuit court's final judgement again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections

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Notes to the Financial Statements
June 30, 2009

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at \$15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass two bills for such purpose during its 2007 Session.

In a second lawsuit, OHA and four individuals filed a complaint for declaratory and injunctive relief on November 4, 1994 and November 9, 1994 (*OHA v. Housing Finance and Development Corporation, et al.*, Civil No. 94-4207-11 (First Circuit)) to enjoin the State from alienating any ceded lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in ceded lands which may be alienated.

Alternatively, OHA sought a declaration that the amounts the Housing Finance and Development Corporation (Corporation) and the State paid to OHA for ceded lands the Corporation planned to use to develop and sell housing units pursuant to Act 318, SLH of 1992, were insufficient. Act 318 established a separate process for valuing the ceded lands the Corporation used for its two housing developments at Kealahou and Lahaina, and quantifying the amounts of income and proceeds from the ceded lands that the Corporation and State were required to pay OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit native Hawaiians' claim to those lands which the Plaintiff requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The Plaintiff moved for and was granted leave to file immediate appeals from the trial court's ruling to the Hawaii Supreme Court. Those appeals are now pending.

On January 31, 2008 the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remanded the case to the circuit court with instructions to issue an order granting the plaintiff's request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands have been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiff's request for such injunction. Seeking reversal of the January 31, 2008 decision of the Hawaii Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008, with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2008, unanimously reversed the Hawaii Supreme Court's

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds “absolute fee” title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC’s two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution “as recognizing claims inconsistent with the title held in ‘absolute fee’ by the United States...and conveyed to the State of Hawaii as statehood.” By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court “for further consideration in light of the United States Supreme Court’s mandate,” and allowed the parties until July 17, 2009 to inform the court “whether there is any effective settlement of the matter.”

On July 15, 2009, all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General filed a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join in the rest of the plaintiffs’ motion to dismiss. By an opinion and two orders filed on October 27, 2009, the Hawaii Supreme Court granted the motion that all plaintiffs but Osorio filed to dismiss their appeal, vacated the January 31, 2003 judgement, and remanded the case to the circuit court for entry of a judgement dismissing plaintiffs Osorio’s claims against the State without prejudice. When the case is before the circuit court, all of the plaintiffs other than plaintiff Osorio will be filing a stipulation dismissing their claims against the State without prejudice, and the Attorney General expects to file a motion to dissolve the injunction entered on June 4, 2008. A judgement on appeal was filed on December 14, 2009.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board members of the HHA and the State Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (First Circuit)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court’s decision in the State’s appeal in *OHA v. State of Hawaii*, Civil No. 94-0205-01 (First Circuit). OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court’s September 12, 2001 decision in *OHA I* should also require dismissal of the claims OHA makes in *OHA v. HHA* and the case remains pending.

The HFDC and HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH was subsequently bifurcated into the HHFDC and the HPHA.

Department of Accounting and General Services
State of Hawaii

Notes to the Financial Statements
June 30, 2009

NOTE G - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued) –

The State intends to vigorously defend against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Accordingly, no estimate of loss has been made in the States' or in the accompanying financial statements. However, resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

The State Parking Revolving Fund has recorded ceded land payments of \$38,715 for 2009 to OHA representing OHA's entitlement to revenues derived from the State Parking Revolving Fund's use of ceded lands. All monies due prior to October 1, 2002 were transferred to a trust fund pending resolution of OHA's claim against the State. Included in accounts payable is \$5,844 for ceded land payments due as of June 30, 2009.

Hurricane Iniki –

Following Hurricane Iniki in 1992, the U.S. Army Corps of Engineers made repairs to certain State properties. These repairs were paid for by the Federal Emergency Management Agency (FEMA). The State subsequently received insurance settlements for certain of the damaged properties. In April 1997, FEMA demanded \$12,167,381 from the State for reimbursement of the cost of repairs. The State disputed FEMA's claim, stating that the insurance settlements only aggregated \$7,423,481. Subsequently, the State filed an appeal in the U.S. District Court and in March 2000, FEMA's claim was upheld, except that it was reduced to \$12,102,524.

In August 2000, the State was informed by FEMA that as of July 1, 2000, the total amount owed was increased to \$16,428,084, due to penalties and interest since July 10, 1997 of \$4,325,560. The District Court's decision was appealed by the State to the U.S. Ninth Circuit Court of Appeals. In June 2002, the U.S. Ninth Circuit Court of Appeals ruled in favor of the State as to the remaining \$4.7 million of the initial \$12,102,524. In August 2002, DAGS paid \$7,423,481 to FEMA. In March 2003, the case was sent back to FEMA and is currently pending.

The Department has recorded a liability in the Risk Management Fund for \$12,102,524, as of July 1, 2008 and June 30, 2009. DAGS's management believes that any additional payments to FEMA above that amount would be paid through special appropriations from the State's General Fund.

SUPPLEMENTAL INFORMATION

Department of Accounting and General Services

State of Hawaii

Combining Balance Sheet -

General Fund Programs

June 30, 2009

	Administration and Support	School Repairs and Maintenance	State Procurement	Accounting	Audit	Public Building Maintenance	Performing and Visual Arts	Office Leasing	Information Processing Services	Communications	Other	Total
ASSETS												
Cash held in State Treasury	\$ 35,732	\$ 35,688	\$ 320	\$ 69,597	\$ 76	\$ 1,872,465	\$ 251,710	\$ 9,529,934	\$ 1,763,688	\$ 70,183	\$ 3,988,214	\$ 17,617,607
Total assets	\$ 35,732	\$ 35,688	\$ 320	\$ 69,597	\$ 76	\$ 1,872,465	\$ 251,710	\$ 9,529,934	\$ 1,763,688	\$ 70,183	\$ 3,988,214	\$ 17,617,607
LIABILITIES												
Vouchers and contracts payable	\$ 14,205	\$ 98,381	\$ 13,834	\$ 34,743	\$ 164	\$ 1,148,003	\$ 111,646	\$ 118	\$ 1,127,701	\$ -	\$ 422,742	\$ 2,971,537
Accrued wages and employee benefits payable	128,681	244,609	59,575	95,013	35,071	539,235	24,738	16,386	591,797	-	242,772	1,977,877
Contract retainage	-	-	-	-	-	-	-	-	-	-	567,590	567,590
Total liabilities	142,886	342,990	73,409	129,756	35,235	1,687,238	136,384	16,504	1,719,498	-	1,233,104	5,517,004
FUND BALANCES												
Reserved for:												
Encumbrances	22,175	22,966	320	55,558	76	1,403,334	142,279	9,529,934	1,203,635	70,183	3,007,759	15,458,219
Unreserved	(129,329)	(330,268)	(73,409)	(115,717)	(35,235)	(1,218,107)	(26,953)	(16,504)	(1,159,445)	-	(252,649)	(3,357,616)
Total fund balances	(107,154)	(307,302)	(73,089)	(60,159)	(35,159)	185,227	115,326	9,513,430	44,190	70,183	2,755,110	12,100,603
Total liabilities and fund balances	\$ 35,732	\$ 35,688	\$ 320	\$ 69,597	\$ 76	\$ 1,872,465	\$ 251,710	\$ 9,529,934	\$ 1,763,688	\$ 70,183	\$ 3,988,214	\$ 17,617,607

Department of Accounting and General Services
State of Hawaii
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
General Fund Programs
for the year ended June 30, 2009

	Administration and Support	School Repairs and Maintenance	State Procurement	Accounting	Audit	Public Building Maintenance	Performing and Visual Arts	Office Leasing	Information Processing Services	Communications	Other	Total
Revenues	\$ 1,179,454	\$ 4,813,844	\$ 1,216,680	\$ 2,558,750	\$ 688,994	\$ 20,389,482	\$ 2,216,046	\$ 11,671,572	\$ 15,775,352	\$ -	\$ 9,783,677	\$ 70,293,851
Expenditures:												
Personal services	2,310,333	3,781,676	1,067,989	1,896,814	647,824	8,521,308	504,695	291,756	9,754,938	-	5,019,751	33,797,084
Other	58,783	803,955	70,371	418,224	16,211	14,542,771	1,597,046	11,546,115	6,720,225	-	11,615,680	47,389,381
Total expenditures	2,369,116	4,585,631	1,138,360	2,315,038	664,035	23,064,079	2,101,741	11,837,871	16,475,163	-	16,635,431	81,186,465
Excess (deficiency) of revenues over (under) expenditures	(1,189,662)	228,213	78,320	243,712	24,959	(2,674,597)	114,305	(166,299)	(699,811)	-	(6,851,754)	(10,892,614)
Other financing sources (uses)												
Operating transfers in	1,545,774	-	61,160	143,707	56,734	2,385,253	40,065	-	483,535	-	29,007	4,745,235
Operating transfers out	-	(145,384)	-	-	-	(95,516)	-	(238,751)	-	-	(931,642)	(1,411,293)
Total other financing sources (uses)	1,545,774	(145,384)	61,160	143,707	56,734	2,289,737	40,065	(238,751)	483,535	-	(902,635)	3,333,942
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	356,112	82,829	139,480	387,419	81,693	(384,860)	154,370	(405,050)	(216,276)	-	(7,754,389)	(7,558,672)
Other changes in fund equity:												
Decrease in inventory and other assets	-	-	-	-	-	-	-	-	-	-	(1,374,902)	(1,374,902)
Lapsed appropriations	(369,496)	(330,043)	(212,246)	(587,327)	(110,451)	(1,295,450)	(207,437)	(690,418)	(1,532,326)	(4,185)	(2,756,961)	(8,096,340)
Net change in fund balances	(13,384)	(247,214)	(72,766)	(199,908)	(28,758)	(1,680,310)	(53,067)	(1,095,468)	(1,748,602)	(4,185)	(11,886,252)	(17,029,914)
Fund balances at July 1, 2008	(93,770)	(60,088)	(323)	139,749	(6,401)	1,865,537	168,393	10,608,898	1,792,792	74,368	14,641,362	29,130,517
Fund balances at June 30, 2009	\$ (107,154)	\$ (307,302)	\$ (73,089)	\$ (60,159)	\$ (35,159)	\$ 185,227	\$ 115,326	\$ 9,513,430	\$ 44,190	\$ 70,183	\$ 2,755,110	\$ 12,100,603

Department of Accounting and General Services

State of Hawaii

Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2009

	Special Revenue Funds				Expendable Trust Fund	Total Other Governmental Funds
	State Foundation on Culture and the Arts	Help America Vote Federal Grant Fund	Wireless Enhanced 911 Special Fund	All Other Special Revenue Funds		
ASSETS						
Cash held in State Treasury	\$ 6,830,166	\$ 5,174,973	\$ 8,425,542	\$ 11,577,677	\$ 953,866	\$ 32,962,224
Receivables - Federal Government	-	-	-	5,738,640	-	5,738,640
Total assets	<u>\$ 6,830,166</u>	<u>\$ 5,174,973</u>	<u>\$ 8,425,542</u>	<u>\$ 17,316,317</u>	<u>\$ 953,866</u>	<u>\$ 38,700,864</u>
LIABILITIES						
Vouchers and contracts payable	\$ 208,601	\$ -	\$ -	\$ 5,893,805	\$ 36,764	\$ 6,139,170
Accrued wages and employee benefits payable	65,214	2,500	-	13,184	-	80,898
Contract retainage	-	-	-	176,029	-	176,029
Due to State of Hawaii	-	1,339,000	-	-	-	1,339,000
Total liabilities	<u>273,815</u>	<u>1,341,500</u>	<u>-</u>	<u>6,083,018</u>	<u>36,764</u>	<u>7,735,097</u>
FUND BALANCES						
Reserved for:						
Encumbrances	1,985,124	-	-	3,145,819	-	5,130,943
Unreserved	<u>4,571,227</u>	<u>3,833,473</u>	<u>8,425,542</u>	<u>8,087,480</u>	<u>917,102</u>	<u>25,834,824</u>
Total fund balances	<u>6,556,351</u>	<u>3,833,473</u>	<u>8,425,542</u>	<u>11,233,299</u>	<u>917,102</u>	<u>30,965,767</u>
Total liabilities and fund balances	<u>\$ 6,830,166</u>	<u>\$ 5,174,973</u>	<u>\$ 8,425,542</u>	<u>\$ 17,316,317</u>	<u>\$ 953,866</u>	<u>\$ 38,700,864</u>

Department of Accounting and General Services

State of Hawaii

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
for the year ended June 30, 2009

	Special Revenue Funds				Expendable Trust Fund	Total Other Governmental Funds
	State Foundation on Culture and the Arts	Help America Vote Federal Grant Fund	Wireless Enhanced 911 Special Fund	All Other Special Revenue Funds		
REVENUES						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance	-	-	-	-	-	-
Rentals	-	-	-	5,470,197	-	5,470,197
Interest and investment income (loss)	(706,699)	(494,619)	22,379	(510,667)	(13,342)	(1,702,948)
Intergovernmental	2,477,814	110,155	-	1,150,223	-	3,738,192
Other	-	-	8,111,453	14,056,882	225,299	22,393,634
Total revenues	1,771,115	(384,464)	8,133,832	20,166,635	211,957	29,899,075
EXPENDITURES						
Administration and support	-	-	-	69,190	-	69,190
Public building maintenance	-	-	-	1,566,822	-	1,566,822
Performing and visual arts	4,187,877	-	-	-	-	4,187,877
Office Leasing	-	-	-	5,849,971	-	5,849,971
Information processing services	-	-	-	1,471,804	-	1,471,804
Other	-	429,481	21,721,754	5,416,319	114,943	27,682,497
Capital outlays	-	-	-	10,074,658	-	10,074,658
Total expenditures	4,187,877	429,481	21,721,754	24,448,764	114,943	50,902,819
Excess (deficiency) of revenues over (under) expenditures	(2,416,762)	(813,945)	(13,587,922)	(4,282,129)	97,014	(21,003,744)
OTHER FINANCING SOURCES (USES)						
Operating transfers in	6,907,251	6,006,497	6,013,464	10,723,000	308,893	29,959,105
Operating transfers out	(7,217,251)	(7,419,797)	(6,013,464)	(3,505,948)	(308,893)	(24,465,353)
Net change in fund balances	(2,726,762)	(2,227,245)	(13,587,922)	2,934,923	97,014	(15,509,992)
FUND BALANCES AT JULY 1, 2008	9,283,113	6,060,718	22,013,464	8,298,376	820,088	46,475,759
FUND BALANCES AT JUNE 30, 2009	\$ 6,556,351	\$ 3,833,473	\$ 8,425,542	\$ 11,233,299	\$ 917,102	\$ 30,965,767

Department of Accounting and General Services

State of Hawaii

Schedule of Expenditures of Federal Awards
for the year ended June 30, 2009

Supplemental Information

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
<u>U.S. General Services Administration</u>			
Donation of Federal Surplus Personal Property (See Note B)	39.003	None	\$ 4,657,183
Total U.S. General Services Administration			<u>4,657,183</u>
<u>U.S. Elections Assistance Commission</u>			
Help America Vote Act of 2002, Title I, Section 101	39.011	None	447,095
Help America Vote Act of 2002, Title II, Section 251	90.401	None	<u>2,148,622</u>
Total U.S. Elections Assistance Commission			<u>2,595,717</u>
<u>National Endowment for the Arts</u>			
Promotion of the Arts Partnership Agreements	45.025	06-6100-2008	2,590
Promotion of the Arts Partnership Agreements	45.025	07-6100-2026	149,064
Promotion of the Arts Partnership Agreements	45.025	08-6100-2041	<u>370,564</u>
Total CFDA 45.025			<u>522,218</u>
Total National Endowment for the Arts			<u>522,218</u>
<u>U.S. Department of Health and Human Services</u>			
Voting Access for Individuals with Disabilities (VOTE)	93.617	2004G993280	1,840
Voting Access for Individuals with Disabilities (VOTE)	93.617	2005G993280	13,568
<i>Passed through State Department of Human Services</i>			
Temporary Assistance for Needy Families	93.558	DHS-07-BESSD-4072	<u>512,006</u>
Total U.S. Department of Health and Human Services			<u>527,414</u>
Total Expenditures of Federal Awards			<u>\$ 8,302,532</u>

See accompanying notes to the schedule of expenditures of federal awards.

**Department of Accounting and General Services
State of Hawaii**

Notes to the Schedule of Expenditures of Federal Awards
for the year ended June 30, 2009

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Department of Accounting and General Services, State of Hawaii and is presented on the cash basis of accounting. Under this basis, expenditures are recognized when paid.

NOTE B - NONMONETARY ASSISTANCE

The Schedule of Expenditures of Federal Awards contains values for a nonmonetary assistance program. As provided by program regulations property received under the Donation of Federal Surplus Property program (CFDA #39.003) is presented at the Federal Government's historical cost.

PART II
COMPLIANCE AND INTERNAL CONTROL

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

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

The Auditor
State of Hawaii

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Department of Accounting and General Services, State of Hawaii, as of and for the year ended June 30, 2009, which collectively comprise the Department's basic financial statements and have issued our report thereon dated March 29, 2010. 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. Other auditors audited the financial statements of the proprietary fund types and the component unit, as described in our report on the Department of Accounting and General Services, State of Hawaii financial statements. This report does not include the results of the other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by the auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Accounting and General Services, State of Hawaii'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 Department of Accounting and General Services, State of Hawaii's, internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department of Accounting and General Services, State of Hawaii's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Department of Accounting and General Services, State of Hawaii's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant 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.

This report is intended solely for the information and use of the management of the Department of Accounting and General Services, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alhanna Oyedunni & Thakur CPAs, Inc.

Honolulu, Hawaii
March 29, 2010

Akamine, Oyadomari & Kosaki

CERTIFIED PUBLIC ACCOUNTANTS, INC.

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

The Auditor
State of Hawaii

Compliance

We have audited the compliance of the Department of Accounting and General Services, State of Hawaii, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2009. The Department of Accounting and General Services, State of Hawaii's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Department of Accounting and General Services, State of Hawaii's, management. Our responsibility is to express an opinion on the Department of Accounting and General Services, State of Hawaii's, compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department of Accounting and General Services, State of Hawaii's, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department of Accounting and General Services, State of Hawaii's compliance with those requirements.

In our opinion, the Department of Accounting and General Services, State of Hawaii, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Department of Accounting and General Services, State of Hawaii, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department of Accounting and General Services, State of Hawaii's, internal control over compliance with the requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department of Accounting and General Services, State of Hawaii's, internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management of the Department of Accounting and General Services, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ahameine Oyadomai & Kosiaki CPAs, Inc.

Honolulu, Hawaii
March 29, 2010

PART III
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Accounting and General Services
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2009

Section I - Summary of Auditor's Results

Financial Statements -

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes x None reported

Noncompliance material to financial statements noted?

_____ Yes x No

Federal Awards -

Internal control over major programs:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes x None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

_____ Yes x No

Identification of major programs:

CFDA Number(s)

Name of Federal Program

39.003

Donation of Federal Surplus Personal Property

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 x Yes _____ No

**Department of Accounting and General Services
State of Hawaii**

Schedule of Findings and Questioned Costs
for the year ended June 30, 2009
(continued)

Section II - Financial Statement Findings

None.

Department of Accounting and General Services
State of Hawaii
Schedule of Findings and Questioned Costs
for the year ended June 30, 2009
(continued)

Section III- Federal Award Findings and Questioned Costs

None.

**Department of Accounting and General Services
State of Hawaii**

**Schedule of Prior Findings and Questioned Costs
for the year ended June 30, 2009**

No prior findings and questioned costs.

PART IV

RESPONSE OF THE DEPARTMENT OF ACCOUNTING AND
GENERAL SERVICES,
STATE OF HAWAII

LINDA LINGLE
GOVERNOR



Russ K. Saito
Comptroller

Sandra L. Yahiro
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

March 29, 2010

Akamine, Oyadomari & Kosaki, CPAs, Inc.
1440 Kapiolani Boulevard, Suite 900
Honolulu, HI 96814

Gentlemen:

Thank you very much for providing the Department of Accounting and General Services (DAGS) the opportunity to review the draft report of the financial audit of the DAGS for the year ended June 30, 2009.

We are very pleased that your study, evaluation, and audit disclosed the following:

- The DAGS financial statements presented fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the DAGS and the respective changes in financial position and cash flows, where applicable, thereof the respective budgetary comparisons for the general fund and other major funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America (unqualified opinion).
- The Schedule of Expenditures of Federal Awards was fairly stated, in all material respects, in relation to the financial statements taken as a whole.
- There were no material weaknesses in the internal control over financial reporting or instances of noncompliance that are required to be reported under Government Auditing Standards.
- The DAGS complied in all material respects with the laws, regulations, contracts, and grants applicable to each of its major federal programs, and that no matters of material weaknesses came to your attention involving internal controls over this compliance.
- The Schedule of Findings and Questioned Costs disclosed no questioned costs or reportable conditions.

Thank you again for the opportunity to review the draft report, and for the assistance and courtesies provided by your staff during the audit engagement.

Sincerely,


Kerry Yoneshige
Business Management Officer