

State of Hawaii
Department of Accounting and General Services
State Motor Pool Revolving Fund
Financial and Compliance Audit
June 30, 2013

Submitted By
Office of the Auditor
State of Hawaii

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PART I
TRANSMITTAL

Office of the Auditor
State of Hawaii

We have completed our financial audit of State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund (the “Fund”) as of and for the year ended June 30, 2013. The audit was performed in accordance with our agreement with the Office of the Auditor, State of Hawaii dated July 19, 2013.

OBJECTIVES

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Fund’s financial statements as of and for the fiscal year ended June 30, 2013. More specifically, the objectives of our audit were as follows:

1. To provide a basis for an opinion as to whether the financial statements of the Fund are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United State of America.
2. To report on the Fund's internal control over financial reporting and 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.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the Fund with the proper information to plan, evaluate, control and correct program activities.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Fund for the fiscal year ended June 30, 2013.

ORGANIZATION OF THE REPORT

This report is organized into six parts:

PART I - presents the transmittal letter.

PART II - presents management's discussion and analysis.

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

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

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

PART VI - contains the corrective action plan.

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

COPY

Original document signed by
Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii
January 16, 2014

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

This section of the annual financial report presents an analysis of the Fund's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements which follow this section.

2013 FINANCIAL HIGHLIGHTS

- The Fund's net position increased by \$196,000 or 5.94%, as compared to 2012.
- The Fund received \$7,000 and transferred out \$19,000 in capital assets.
- The Fund's investment in capital assets was \$1,984,000, which decreased by \$167,000 or 7.76%, as compared to 2012.
- The Fund's operating revenues increased by \$59,000 or 2.40%, as compared to 2012, due to increased vehicle rentals.

OVERVIEW OF ANNUAL REPORT

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2013

REQUIRED FINANCIAL STATEMENTS (Continued)

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

Tables 1 and 2 present a comparative view of net position and revenues, expenses, and changes in net position as of June 30, 2013 and 2012.

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

	2013	2012
ASSETS		
Current	\$ 2,428,000	\$ 2,335,000
Capital assets, net of depreciation	<u>1,984,000</u>	<u>2,151,000</u>
TOTAL ASSETS	<u>\$ 4,412,000</u>	<u>\$ 4,486,000</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current	\$ 95,000	\$ 582,000
Long-term	786,000	605,000
Deferred inflows of resources	<u>36,000</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>917,000</u>	<u>1,187,000</u>
NET POSITION		
Invested in capital assets, net of related debt	1,984,000	2,151,000
Unrestricted	<u>1,511,000</u>	<u>1,148,000</u>
TOTAL NET POSITION	<u>3,495,000</u>	<u>3,299,000</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 4,412,000</u>	<u>\$ 4,486,000</u>

Net position of the Fund increased by \$196,000 or 5.94% in 2013. Investment in capital assets (i.e., vehicles, shop equipment, furniture and fixtures), net of the related debt used to purchase the assets represents a large portion of the Fund's net position; \$1,984,000 or 56.77% in 2013 and \$2,151,000 or 65.20% in 2012. Capital assets are used to provide vehicles for state agencies. The Fund's investment in its capital assets is reported net of debt. The resources needed to repay this debt must be provided by other sources, since the capital assets, mainly the vehicles, cannot be used to liquidate the debt. The remaining unrestricted assets may be used to finance day to day operations without any constraints established by debt, or other legal requirements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2013

REQUIRED FINANCIAL STATEMENTS (Continued)

TABLE 2
REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Rounded to nearest \$1,000)

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Motor vehicle rentals	\$ 2,370,000	\$ 2,309,000
Motor vehicle repairs	<u>144,000</u>	<u>146,000</u>
TOTAL OPERATING REVENUES	<u>2,514,000</u>	<u>2,455,000</u>
OPERATING EXPENSES		
General operating and administrative	1,838,000	1,790,000
Depreciation	<u>526,000</u>	<u>463,000</u>
TOTAL OPERATING EXPENSES	<u>2,364,000</u>	<u>2,253,000</u>
INCOME FROM OPERATIONS	150,000	202,000
NET NONOPERATING		
REVENUES (EXPENSES)	<u>40,000</u>	<u>(707,000)</u>
EXCESS (LOSS) BEFORE CAPITAL		
CONTRIBUTIONS AND TRANSFERS	190,000	(505,000)
CAPITAL CONTRIBUTIONS	18,000	380,000
TRANSFERS IN OF CAPITAL ASSETS	7,000	-
TRANSFERS OUT OF CAPITAL ASSETS	<u>(19,000)</u>	<u>-</u>
CHANGE IN NET POSITION	196,000	(125,000)
NET POSITION BEGINNING OF THE YEAR	<u>3,299,000</u>	<u>3,424,000</u>
NET POSITION END OF THE YEAR	<u>\$ 3,495,000</u>	<u>\$ 3,299,000</u>

The Fund's vehicle rental rates are established under the jurisdiction of the Comptroller, as Chief of the Department of Accounting and General Services or the Comptroller's designated representative, the division head of the Automotive Management Division. The increase in operating revenues of \$59,000 or 2.40% in 2013 was primarily due to the increase in motor vehicle rentals.

The increase in general operating expenses of \$48,000 or 2.68% in 2013 was primarily due to increases in personnel services costs.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Fund's investment in capital assets amounted to \$1,984,000 and \$2,151,000 (net of accumulated depreciation of \$4,839,000 in 2013 and \$4,454,000 in 2012). Capital assets include vehicles, shop equipment, furniture and fixtures.

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

	<u>2013</u>	<u>2012</u>
ASSETS		
Capital assets, net of accumulated depreciation:		
Vehicles	\$ 1,881,000	\$ 2,047,000
Shop equipment, furniture and fixtures	<u>103,000</u>	<u>104,000</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 1,984,000</u>	<u>\$ 2,151,000</u>

Debt Administration

There was no debt as of June 30, 2013 and 2012.

CURRENTLY KNOWN DECISIONS AND FACTS

None

PART III
FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund (the "Fund") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of Hawaii, or any other segment thereof, as of June 30, 2013, and the changes in its financial position, or, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

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

COPY
Original document signed by
Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii
January 16, 2014

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
STATEMENT OF NET POSITION
JUNE 30, 2013

CURRENT ASSETS	
Cash and cash equivalents	\$ 2,113,099
Motor vehicle receivable, net	294,564
Inventories	20,592
TOTAL CURRENT ASSETS	<u>2,428,255</u>
 NONCURRENT ASSETS	
Capital assets, at cost, less accumulated depreciation	<u>1,984,439</u>
TOTAL ASSETS	<u>\$ 4,412,694</u>
 CURRENT LIABILITIES	
Accounts payable	\$ 43,492
Accrued liabilities	51,395
TOTAL CURRENT LIABILITIES	<u>94,887</u>
 NONCURRENT LIABILITIES	
Accrued liabilities	168,735
Net OPEB obligation	617,508
TOTAL NONCURRENT LIABILITIES	<u>786,243</u>
 DEFERRED INFLOWS OF RESOURCES	
Advance for transfer of vehicles	<u>36,000</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>917,130</u>
 NET POSITION	
Invested in capital assets, net of related debt	1,984,439
Unrestricted	1,511,125
TOTAL NET POSITION	<u>3,495,564</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 4,412,694</u>

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

OPERATING REVENUES	
Motor vehicle rentals	\$ 2,370,322
Motor vehicle repairs	143,914
TOTAL OPERATING REVENUES	<u>2,514,236</u>
OPERATING EXPENSES	
Personnel services	959,468
Gas and oil	576,667
Depreciation	525,888
Repairs and maintenance	185,103
Others	116,650
TOTAL OPERATING EXPENSES	<u>2,363,776</u>
INCOME FROM OPERATIONS	<u>150,460</u>
NONOPERATING REVENUES	
Gain on investments in State Treasury	24,082
Gain on disposition of capital assets	11,544
Interest and miscellaneous income	4,020
TOTAL NONOPERATING REVENUES	<u>39,646</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	190,106
CAPITAL CONTRIBUTIONS	18,203
TRANSFERS IN OF CAPITAL ASSETS	6,838
TRANSFERS OUT OF CAPITAL ASSETS	<u>(18,678)</u>
CHANGE IN NET POSITION	196,469
NET POSITION, BEGINNING OF THE YEAR	<u>3,299,095</u>
NET POSITION, END OF THE YEAR	<u><u>\$ 3,495,564</u></u>

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from motor vehicle rentals	\$ 2,317,208
Receipts from motor vehicle repairs	143,914
Payments for personnel services	(786,533)
Payments for gas and oil	(606,396)
Payments for repairs and maintenance	(175,919)
Other administrative payments	(116,584)
NET CASH PROVIDED BY OPERATING ACTIVITIES	775,690

CASH FLOWS FROM INVESTING ACTIVITIES

Interest from pooled funds	4,462
Gain on investments held in State Treasury	24,082
NET CASH PROVIDED BY INVESTING ACTIVITIES	28,544

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(422,273)
Proceeds from disposal of capital assets	11,544
Proceeds from transfers of capital assets	87,200
Capital contributions	18,203
Refund to US Department of Health & Human Services	(458,405)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(763,731)

NET INCREASE IN CASH AND CASH EQUIVALENTS 40,503

CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	2,072,596
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 2,113,099

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2013

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

Income from operations	\$	150,460
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation		525,888
(Increase) decrease in assets:		
Motor vehicle rental receivable		(53,114)
Inventories		(343)
Increase (decrease) in liabilities:		
Accounts payable		(20,136)
Accrued wages payable		(1,095)
Accrued vacation payable		22,016
Net OPEB obligation		152,014
		625,230
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	775,690

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Net Position - Net position is reported into two categories: invested in capital assets, net of related debt and unrestricted.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Special Assessments - HRS Section 36-27 requires the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund's receipts. HRS Section 36-30 requires the Fund be assessed its pro rata share of administrative expenses incurred by the Department of Accounting and General Services (DAGS), based on the ratio of the general administrative service expenses to DAGS' net departmental expenses. There was no HRS Section 36-27 or Section 36-30 assessment in 2013.

Risk Management - The Fund is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. As part of the State Department of Accounting and General Services, the Fund is insured under the State of Hawaii (the State) as follows: The State generally retains the first \$1 million per occurrence of property losses, the first \$4 million with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$225 million, except for flood and earthquake, which individually is \$225 million aggregate loss, and terrorism, which is \$50 million per occurrence. The annual aggregate for general liability losses is \$15 million per occurrence and for crime losses, the limit per occurrence is \$10 million with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35 million per occurrence and \$39 million in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

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

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers - Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June, 30, 2013, there were transfers in of capital assets totaling \$6,838 and transfers out of capital assets totaling \$18,678.

Compensated Absences - It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred. A liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements.

Deferred Compensation Plan - The Fund offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all Fund employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

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

Cash and Cash Equivalents - Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and all time certificates of deposit. For purposes of the statement of cash flows, the Fund has defined cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

Investments - Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

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

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance’s judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2013

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

agreements with federally-insured financial institutions. Pooled cash balances invested included auction rate securities. In 2013, the Fund's allocated share of investment gains on pooled auction rate securities were \$24,082.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Vehicles	\$ 6,427,505	\$ 422,273	\$ 201,759	\$ 6,648,019
Shop equipment, furniture & fixtures	<u>177,393</u>	<u>6,838</u>	<u>9,151</u>	<u>175,080</u>
Total capital assets	<u>6,604,898</u>	<u>429,111</u>	<u>210,910</u>	<u>6,823,099</u>
Less accumulated depreciation for:				
Vehicles	(4,380,335)	(518,181)	(131,882)	(4,766,634)
Shop equipment, furniture & fixtures	<u>(73,470)</u>	<u>(7,707)</u>	<u>(9,151)</u>	<u>(72,026)</u>
Total accumulated depreciation	<u>(4,453,805)</u>	<u>(525,888)</u>	<u>(141,033)</u>	<u>(4,838,660)</u>
Total capital assets, net of depreciation	<u>\$ 2,151,093</u>	<u>\$ (96,777)</u>	<u>\$ 69,877</u>	<u>\$ 1,984,439</u>

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

Accrued vacation payable	\$ 179,741
Accrued wages payable	31,689
Accrued workers' compensation	<u>8,700</u>
	220,130
Less current portion	<u>(51,395)</u>
Total accrued liabilities, net of current portion	<u>\$ 168,735</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2013

5. WORKERS' COMPENSATION RESERVE

The Fund is fully self-insured for workers' compensation and disability claims which are expensed when incurred. The Fund pays a portion of wages, medical bills, and judgments as stipulated by the Department of Labor and Industrial Relations, and other costs for injured workers. During the year ended June 30, 2013, there were no payments for workers' compensation claims and disability expenses. The Fund has recorded a reserve of \$8,700 for the expected cost of open reported claims based on historical cost information for closed and open claims as of June 30, 2013.

6. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Due within</u> <u>one year</u>
Accrued liabilities	\$ 199,209	\$ 53,705	\$ 32,784	\$ 220,130	\$ 51,395
Net OPEB obligation	<u>465,494</u>	<u>209,213</u>	<u>57,199</u>	<u>617,508</u>	<u>-</u>
Total non-current liabilities	<u>\$ 664,703</u>	<u>\$262,918</u>	<u>\$ 89,983</u>	<u>\$ 837,638</u>	<u>\$ 51,395</u>

7. RETIREMENT BENEFITS

Employees' Retirement System

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

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new non-contributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the non-contributory plan. The non-contributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were

STATE OF HAWAII
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

allowed to continue under the contributory plan or to elect the new non-contributory plan and receive a refund of employee contributions. On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Qualified employees in the contributory and non-contributory plan were given the option of joining the hybrid plan or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

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

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

Employees of the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. The Fund may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years of credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

New employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may

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JUNE 30, 2013

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving 5 years of credited service. The Fund may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2013

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

The State's contribution requirement as of June 30, 2012, 2011 and 2010, based on the most recent information available, was approximately \$396,380,000, \$388,242,000, and \$398,724,000 respectively. The State contributed 108.6%, 105.3%, and 99.6% of its required contributions for those years, respectively. The Fund's covered payroll was approximately \$587,664 in 2013. The retirement plan contributions charged to the Fund's operation was \$87,137 in 2013.

Post-Retirement Health Care and Life Insurance Benefits

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF currently provides medical, prescription drug, dental, vision, chiropractic, and group life insurance benefits. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2013

7. RETIREMENT BENEFITS (Continued)

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

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

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

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

Effective July 1, 2007, the State of Hawaii adopted GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions* (GASB 45), which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year, therefore, an actuarial valuation was performed for July 1, 2011.

The State's base contribution levels to EUTF are established by statutes. The retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to

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7. RETIREMENT BENEFITS (Continued)

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

amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The actuarial methods and assumptions used to compute the ARC is disclosed in the notes to the financial statements of the State of Hawaii's comprehensive annual financial report. The Fund's contribution for the years ended June 30, 2013, 2012, and 2011 were \$57,199, \$43,769 and \$33,970, respectively.

For the year ended June 30, 2013, total annual required contribution of \$1,010,168,574 was recognized for post-retirement health care and life insurance benefits by the State of which \$277,900,000 was paid in 2013 and a net OPEB obligation of \$732,268,574 remained as of June 30, 2013. The Fund's share of the total annual required contribution was \$209,213, of which \$57,199 was paid in 2013. A net OPEB obligation of \$617,508 is presented in the statement of net position at June 30, 2013.

8. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. As of June 30, 2013, accumulated sick leave was approximately \$489,385.

PART IV

INTERNAL CONTROL AND COMPLIANCE SECTION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund (the “Fund”) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

We noted certain matters that we have reported to governance of the Fund, in a separate letter dated January 16, 2014.

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

COPY
Original document signed by
Egami & Ichikawa CPAs, Inc.

Honolulu, Hawaii
January 16, 2014

PART V

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Status of Prior Year's Comments

No matters were reported.

Current Year's Comments

No matters were reported.

PART VI
CORRECTIVE ACTION PLAN

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2013

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2013.