State of Hawaii
Department of Accounting and General Services
State Parking Revolving Fund
Financial and Compliance Audit
June 30, 2014

Submitted By
Office of the Auditor
State of Hawaii

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PART I

TRANSMITTAL

EGAMI & ICHIKAWA
CERTIFIED PUBLIC ACCOUNTANTS, INC.

Office of the Auditor
State of Hawaii

We have completed our financial audit of State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund (the "Fund") as of and for the year ended June 30, 2014. 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, 2014. 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 States 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, 2014.

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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.

Egami & Ichimura CPAs Inc.

Honolulu, Hawaii
March 31, 2015

PART II

MANAGEMENT’S DISCUSSION AND ANALYSIS

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

This section of the annual financial report presents an analysis of the Fund's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements which follow this section.

2014 FINANCIAL HIGHLIGHTS

- The Fund's net position decreased by $1,592,000 or 7.99%, as compared to 2013. This decrease was primarily due to funds transferred out to the State's General Fund totaling $448,000 and the correction of a prior period error to capital investments for $1,000,000.
- The Fund's investment in capital assets was $17,082,000, which decreased by $1,963,000 or 10.31%, as compared to 2013. $1,000,000 of the decrease was due to the correction of a prior period error.
- The Fund's total liabilities were $1,659,000, which increased by $323,000 or 24.18%, as compared to 2013.
- The Fund's operating revenues increased by $177,000 or 4.74%, as compared to 2013. The increase was due to increased collections from parking assessments and parking meters.

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.

REQUIRED FINANCIAL STATEMENTS (Continued)

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.

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, 2014 and 2013.

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

	2014	2013
ASSETS		
Current	$ 2,913,000	$ 2,219,000
Capital assets, net of depreciation	17,082,000	19,045,000
TOTAL ASSETS	$ 19,995,000	$ 21,264,000
LIABILITIES		
Current	$ 200,000	$ 190,000
Long-term	1,459,000	1,146,000
TOTAL LIABILITIES	1,659,000	1,336,000
NET POSITION		
Invested in capital assets, net of related debt	17,033,000	18,980,000
Unrestricted	1,303,000	948,000
TOTAL NET POSITION	18,336,000	19,928,000
TOTAL LIABILITIES AND NET POSITION	$ 19,995,000	$ 21,264,000

Net position of the Fund decreased by $1,592,000 or 7.99% in 2014. Investment in capital assets (i.e., land, construction in progress, structures and improvements, and equipment, furniture and fixtures), net of the related debt used to construct the assets represent a large portion of the Fund's assets; $17,033,000 or 92.89% in 2014 and $18,980,000 or 95.24% in 2013. Capital assets are used to provide parking for employees, contractors with state related business and the public. 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 parking structures, cannot be used to liquidate these liabilities. The remaining unrestricted assets may be used to finance day to day operations without any constraints established by debt or other legal requirements.

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

	2014	2013
OPERATING REVENUES		
Parking assessments	$ 2,650,000	$ 2,545,000
Parking meter collections	1,089,000	1,016,000
Traffic fines	168,000	170,000
Other income	3,000	2,000
TOTAL OPERATING REVENUES	3,910,000	3,733,000
OPERATING EXPENSES		
General operating and administrative	2,788,000	2,628,000
Depreciation	1,259,000	1,430,000
TOTAL OPERATING EXPENSES	4,047,000	4,058,000
LOSS FROM OPERATIONS	(137,000)	(325,000)
NET NONOPERATING (EXPENSES) REVENUES	(7,000)	3,000
OPERATING TRANSFER	(448,000)	(499,000)
CHANGE IN NET POSITION	(592,000)	(821,000)
NET POSITION, BEGINNING OF YEAR	19,928,000	20,749,000
PRIOR PERIOD ADJUSTMENT	(1,000,000)	-
NET POSITION, END OF THE YEAR	$ 18,336,000	$ 19,928,000

The Fund's parking assessment fees and rates are established by 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 $177,000 or 4.74% in 2014 was due to increased collections from parking assessments and parking meter collections.

The increase in general operating expenses of $160,000 or 6.09% in 2014 was primarily due to increases in personnel expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Fund's investment in capital assets amounted to $17,082,000 and $19,045,000 at June 30, 2014 and 2013 (net of accumulated depreciation of $54,480,000 in 2014 and $53,065,000 in 2013). Capital assets include land, structures and improvements, and equipment, furniture and fixtures. Structures and improvements represent 85.18% in 2014 and 83.55% in 2013, of the total capital assets.

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

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

	2014	2013
ASSETS		
Capital assets not being depreciated:		
Land	$ 9,271,000	$ 10,271,000
Construction in progress	1,154,000	1,409,000
Total capital assets, not being depreciated	10,425,000	11,680,000
Capital assets being depreciated, net of accumulated depreciation:		
Structures and improvements	6,657,000	7,365,000
CAPITAL ASSETS, AT COST, LESS ACCUMULATED DEPRECIATION	$ 17,082,000	$ 19,045,000

Debt Administration

The Fund had long-term debt of $49,000 and $65,000, at June 30, 2014 and 2013, respectively, which is comprised of General obligation refunding bonds. See Note 7 of the Fund's financial statements for additional information on the General obligation refunding bonds:

Bonds payable (Rounded to the nearest $1,000) are accounted for as follows:

	2014	2013
Current	$ 16,000	$ 15,000
Noncurrent	33,000	50,000
Total bonds payable	$ 49,000	$ 65,000

The Fund's total debt decreased by $16,000 in 2014.

CURRENTLY KNOWN DECISIONS AND FACTS

None

PART III

FINANCIAL SECTION

EGAMI & ICHIKAWA
CERTIFIED PUBLIC ACCOUNTANTS, INC.

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 Parking Revolving Fund (the "Fund") as of and for the year ended June 30, 2014, 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.

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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, 2014, 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, 2014, 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 March 31, 2015, 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.

Egami & Ichikawa CPAs Inc.

Honolulu, Hawaii
March 31, 2015

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
STATEMENT OF NET POSITION
JUNE 30, 2014

CURRENT ASSETS		
Cash and cash equivalents	$	2,841,191
Accounts receivable, net		59,529
Inventories		11,993
TOTAL CURRENT ASSETS		2,912,713
NONCURRENT ASSETS		
Capital assets, at cost, less accumulated depreciation		17,082,458
TOTAL ASSETS	$	19,995,171
CURRENT LIABILITIES		
Accounts payable	$	115,631
Accrued liabilities		68,739
General obligation bonds payable-current		15,843
TOTAL CURRENT LIABILITIES		200,213
NONCURRENT LIABILITIES		
Security card deposits		27,590
Accrued liabilities		166,887
General obligation bonds payable, less current portion		33,656
Net OPEB obligation		1,230,703
TOTAL NONCURRENT LIABILITIES		1,458,836
TOTAL LIABILITIES		1,659,049
NET POSITION		
Invested in capital assets, net of related debt		17,032,959
Unrestricted		1,303,163
TOTAL NET POSITION		18,336,122
TOTAL LIABILITIES AND NET POSITION	$	19,995,171

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

OPERATING REVENUES	
Parking assessments	$ 2,650,062
Parking meter collections	1,089,075
Traffic fines	167,948
Other income	2,527
TOTAL OPERATING REVENUES	3,909,612
OPERATING EXPENSES	
Depreciation	1,259,168
Personnel services	1,533,420
Repairs and maintenance	442,918
Others	811,058
TOTAL OPERATING EXPENSES	4,046,564
LOSS FROM OPERATIONS	(136,952)
NONOPERATING REVENUES (EXPENSES)	
Interest income	5,902
Other income	19,274
Assessment on ceded land revenues	(32,475)
Interest expense	(249)
TOTAL NONOPERATING REVENUES (EXPENSES)	(7,548)
LOSS BEFORE TRANSFERS	(144,500)
TRANSFER OUT TO GENERAL FUND	(447,763)
CHANGE IN NET POSITION	(592,263)
NET POSITION, BEGINNING OF THE YEAR	19,928,385
PRIOR PERIOD ADJUSTMENT	(1,000,000)
NET POSITION, END OF THE YEAR	$ 18,336,122

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from parking assessments	$	2,665,438
Receipts from parking meter collections		1,112,196
Receipts from traffic fines		167,948
Other receipts		2,527
Payments for personnel services		(1,209,251)
Payments for repairs and maintenance		(420,411)
Other administrative payments		(811,670)
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,506,777
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest from pooled funds		5,902
Other receipts		19,274
NET CASH PROVIDED BY INVESTING ACTIVITIES		25,176
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction in progress additions, net of completed repairs		(304,358)
Ceded land payment		(32,475)
Principal paid on general obligation bonds		(15,061)
Interest paid on general obligation bonds		(249)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(352,143)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer out to general fund		(447,763)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES		(447,763)
NET INCREASE IN CASH AND CASH EQUIVALENTS		732,047
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR		2,109,144
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$	2,841,191

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2014

RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Loss from operations	$	(136,952)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation		1,259,168
(Increase) decrease in assets:		
Accounts receivable		38,497
Inventories		(54)
Increase (decrease) in liabilities:		
Accounts payable		21,951
Accrued wages payable		5,950
Accrued vacation payable		15,604
Net OPEB obligation		302,613
		1,643,729
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	1,506,777

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State Parking Revolving Fund (the “Fund”) was established by an appropriation of $50,000 from the State’s General Fund pursuant to Act 161, Session Laws of Hawaii 1963 (Section 107-11 of the Hawaii Revised Statutes). The Fund is responsible for the assessment and collection of reasonable parking fees, installation of parking meters, and the restriction and control of parking on all State lands within the State Comptroller's jurisdiction. All fees, charges and other revenue collected are deposited into this Fund. The funds are to be expended, as necessary, to defray the cost of paving parking areas as well as the purchase and installation of parking meters on State lands within the State Comptroller's jurisdiction.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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: investment in capital assets, net of related debt and unrestricted.

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 that the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund's receipts. HRS Section 36-30 requires that the Fund be assessed its pro rata share of administrative expenses incurred by the Department of Accounting and General Services (DAGS), based on the ratio of the general administrative service expenses to DAGS' net departmental expenses. There was no HRS Section 36-27 or Section 36-30 assessment in 2014.

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 $200 million, except for earthquake, which individually is $100 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.

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, 2014, the Fund transferred to the General Fund, $447,763.

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.

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).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets of the Fund include parking structures and improvements, and equipment, furniture and fixtures with estimated useful lives greater than one year and acquisition costs greater than the following amounts:

Structures and improvements	$100,000
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:

	Useful Lives
Structures and improvements	15 - 30 years
Equipment, furniture and fixtures	5 - 12 years

Traffic Fines - Traffic fines are reported as revenue when received.

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 agreements with federally-insured financial institutions.

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 10,271,053	$ -	$ 1,000,000	$ 9,271,053
Construction in progress	1,409,224	296,521	551,278	1,154,467
Total capital assets not being depreciated	11,680,277	296,521	1,551,278	10,425,520
Capital assets being depreciated:				
Structures and improvements	60,250,817	707,443	-	60,958,260
Equipment, furniture & fixtures	179,198	-	-	179,198
Total capital assets being depreciated	60,430,015	707,443	-	61,137,458
Total capital assets	72,110,292	1,003,964	1,551,278	71,562,978
Less accumulated depreciation for:				
Structures and improvements	(52,944,237)	(1,402,388)	-	(54,346,625)
Equipment, furniture & fixtures	(120,951)	(12,944)	-	(133,895)
Total accumulated depreciation	(53,065,188)	(1,415,332)	-	(54,480,520)
Total capital assets, net of depreciation	$ 19,045,104	$ (411,368)	$ 1,551,278	$ 17,082,458

4. CEDED LAND REVENUES

In 1898, the former 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") to the State of Hawaii to be held as a public land trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands as provided by law,

4. CEDED LAND REVENUES (Continued)

to better the conditions of native Hawaiians. In 1979, the Legislature adopted HRS Chapter 10 (Chapter 10), which, as amended in 1980, specified, among other things, that OHA expend 20% of the funds derived by the State from the Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for the claims pending in the *OHA v. HHA* case discussed below, the Legislature, the state and federal courts, and the State's governors have acted to address the concerns raised. However, there can be no assurance that in the future there will not be asserted against the State, new claims made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or that OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

In *OHA v. HHA*, OHA filed suit on July 27, 1995 (*OHA v. HHA, et al*., Civil No. 95-2682-07 (1st Cir.)) against the Hawaii Housing Authority (the "HHA," since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance 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 *OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1st Cir.). The September 12, 2001 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii*, 96 Haw. 399 (2001)) includes elements, with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA*, and the case remains pending.

The Housing Finance and Development Corporation and the HHA were merged into the Housing and Community Development Corporation of Hawaii, after the above-described suits against them were filed. This corporation subsequently was bifurcated into the Hawaii Housing Finance and Development Corporation and the Hawaii Public Housing Authority.

The State intends to defend vigorously against OHA's claim in *OHA v. HHA*.

4. CEDED LAND REVENUES (Continued)

The Fund has recorded ceded land payments of $32,475 for 2014, to OHA representing OHA's entitlement to revenues derived from the 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 $5,172 for ceded land payments due as of June 30, 2014.

5. ACCRUED LIABILITES

Accrued liabilities consist of the following:

Accrued vacation payable	$ 169,732
Accrued wages payable	52,794
Accrued workers' compensation	13,100
	235,626
Less current portion	(68,739)
Total accrued liabilities, net of current portion	$ 166,887

6. 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, 2014, there were no payments for workers' compensation claims and disability expenses. The Fund has recorded a reserve of $13,100 for the expected cost of open reported claims based on historical cost information for closed and open claims as of June 30, 2014.

7. GENERAL OBLIGATION BONDS PAYABLE

The following are general obligation refunding bonds allocated to the Fund under acts of various Session Laws of Hawaii. Repayments of allocated bonds are made to the State's General Fund. Details of the allocated bonds payable at June 30, 2014 are as follows:

7. GENERAL OBLIGATION BONDS PAYABLE (Continued)

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 on August 15, 2015.	$ 244
3.60% - 5.25% General obligation refunding bonds, Series CY, of $2,394 issued in February 2002 under Act 3, Session 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.	326
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.	47,787
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.	1,142
Total bonds payable	49,499
Less current installments	(15,843)
Bonds payable, net of current installments	$ 33,656

7. GENERAL OBLIGATION BONDS PAYABLE (Continued)

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

Years ending June 30:	Principal	Interest	Total
2015	$ 15,843	$ 183	$ 16,026
2016	16,292	112	16,404
2017	17,057	44	17,101
2018	307	5	312
	$ 49,499	$ 344	$ 49,843

8. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Security card deposits	$ 27,590	$ -	$ -	$ 27,590	$ -
Accrued liabilities	214,071	68,399	46,844	235,626	68,739
Net OPEB obligation	928,090	388,439	85,826	1,230,703	-
General obligation bonds payable	64,560	-	15,061	49,499	15,843
Total non-current liabilities	$1,234,311	$ 456,838	$ 147,731	$1,543,418	$ 84,582

9. 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, or through the ERS's website: ers.hawaii.gov.

9. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

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

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

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan.

Effective July 1, 2012, the hybrid contributory plan was revised by Act 163, SLH of 2011. Members joining the hybrid plan on or after that date are eligible for retirement at age 65 with 10 years of credited service or age 60 with 30 years of credited service. Members will receive a benefit multiplier of 1.75% for each year of credited service in the hybrid plan. The benefit options remain similar to the current contributory plan.

Covered employees of the contributory plan who became members on or before June 30, 2012 are required to contribute 7.8% of their salary. Covered employees of the hybrid plan who became members on or before June 30, 2012 are required to contribute 6% 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.

9. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

The State's contribution requirements as of June 30, 2014, 2013, and 2012 were approximately $463,832,000, $418,415,000 and $396,380,000, respectively. The State contributed 90.9%, 87.4% and 84.8% of its required contribution for those years, respectively. The Fund's covered payroll was approximately $864,191 in 2014. The retirement plan contributions charged to the Fund's operation was $132,499 in 2014.

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

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 employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

9. RETIREMENT BENEFITS (Continued)

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

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Effective July 1, 2006, the State implemented GASB Statement No. 43 (GASB 43), *Financial Reporting for Postemployment Benefit Plans Other than Pensions*. 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 State 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 (GASB 10), *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended.

The State is required by GASB Statement No. 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, to obtain an actuarial valuation every other year, therefore, an actuarial valuation was performed for July 1, 2013.

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

Prior to fiscal year 2014, the State's base contribution levels were tied to the pay-as you-go amounts necessary to provide current benefits to retirees. In fiscal year 2014, the State contributed $100,000,000 in addition to amounts necessary to provide current benefits to retirees.

9. RETIREMENT BENEFITS (Continued)

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

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 amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

On July 3, 2013, the Governor signed into law Act 268, SLH of 2013. Act 268 requires the EUTF to establish and administer separate accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contributions shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties.

The 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, 2014, 2013, and 2012 were $85,826, $84,719 and $66,234, respectively.

For the year ended June 30, 2014, total annual required contribution of $650,818,000 was recognized for post-retirement health care and life insurance benefits by the State of which $338,200,000 was paid in 2014 and a net OPEB obligation of $3,733,472,000 remained as of June 30, 2014. The Fund's share of the total annual required contribution was $388,440, of which $85,826 was paid in 2014. A net OPEB obligation of $1,230,703 is presented in the statement of net position at June 30, 2014.

10. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave

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, 2014, accumulated sick leave was approximately $666,000.

Litigation

The Fund is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Fund's financial position. Losses, if any, will either be covered by insurance or paid from legislative appropriations of the State's General Fund.

11. PRIOR PERIOD ADJUSTMENT

The capital assets, at cost, less accumulated depreciation were overstated in the prior periods due to an error. The prior period adjustment resulted in a decrease to capital assets, at cost, less accumulated depreciation and net position in the amount of $1,000,000.

PART IV

INTERNAL CONTROL AND COMPLIANCE SECTION

EGAMI & ICHIKAWA
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*

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 Parking Revolving Fund (the "Fund") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated March 31, 2015.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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 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 March 31, 2015.

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.

Egami & Nakamura CPAs Inc.

Honolulu, Hawaii
March 31, 2015

PART V

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable condition identified that is not considered to be material weakness?	No
Noncompliance material to financial statements noted?	No

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 PARKING REVOLVING FUND
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2014

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2014.