

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

Submitted By
The Auditor
State of Hawaii

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PART I
TRANSMITTAL

February 24, 2009

The Auditor
State of Hawaii

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

OBJECTIVES

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

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

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

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Fund for the fiscal year ended June 30, 2008.

ORGANIZATION OF THE REPORT

This report is organized into six parts:

PART I - presents the transmittal letter.

PART II - presents management's discussion and analysis.

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

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

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

PART VI - contains the corrective action plan.

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

Very truly yours,

Michael Y. Ichikawa
Principal

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- In 2008 the Fund's net assets decreased by 4.78% or \$1,340,000 as compared to 2007. This decrease is primarily due to funds transferred out to the State's General Fund totaling \$832,000, and increased operating expenses of approximately \$482,000.
- The Fund's investment in capital assets was \$25,562,000 for the year ended June 30, 2008, which decreased by \$1,098,000 or (4.2)% compared to the prior year.
- The Fund's total liabilities were \$971,000 for the year ended June 30, 2008, which decreased by \$98,000 or (9.11)% compared to the prior year.
- In 2008 the Fund's operating revenues increased by 2.72% or \$99,000 from 2007. The increase is primarily due to increased parking meter collections.

OVERVIEW OF ANNUAL REPORT

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

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

REQUIRED FINANCIAL STATEMENTS (Continued)

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

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

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

| | 2008 | 2007 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current | \$ 2,092,000 | \$ 2,432,000 |
| Capital assets, net of depreciation | <u>25,562,000</u> | <u>26,660,000</u> |
| TOTAL ASSETS | <u>\$ 27,654,000</u> | <u>\$ 29,092,000</u> |
| LIABILITIES | | |
| Current | \$ 302,000 | \$ 485,000 |
| Long-term | <u>669,000</u> | <u>584,000</u> |
| TOTAL LIABILITIES | <u>971,000</u> | <u>1,069,000</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 25,281,000 | 26,148,000 |
| Unreserved | <u>1,402,000</u> | <u>1,875,000</u> |
| TOTAL NET ASSETS | <u>26,683,000</u> | <u>28,023,000</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 27,654,000</u> | <u>\$ 29,092,000</u> |

Net assets of the Fund decreased by 4.78% in 2008. 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; \$25,281,000 or 94.75% in 2008 and \$26,148,000 or 93.31% in 2007. 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 unreserved assets may be used to finance day to day operations without any constraints established by debt or other legal requirements.

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

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

| | <u>2008</u> | <u>2007</u> |
|--------------------------------------|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Parking assessments | \$ 2,543,000 | \$ 2,591,000 |
| Parking meter collections | 1,006,000 | 857,000 |
| Traffic fines | 166,000 | 170,000 |
| Other income | <u>15,000</u> | <u>14,000</u> |
| TOTAL OPERATING REVENUES | <u>3,730,000</u> | <u>3,632,000</u> |
| OPERATING EXPENSES | | |
| General operating and administrative | 2,664,000 | 2,129,000 |
| Depreciation | <u>1,628,000</u> | <u>1,681,000</u> |
| TOTAL OPERATING EXPENSES | <u>4,292,000</u> | <u>3,810,000</u> |
| LOSS FROM OPERATIONS | (562,000) | (178,000) |
| NET NON OPERATING REVENUE | 53,000 | 69,000 |
| OPERATING TRANSFERS | <u>(832,000)</u> | <u>(1,574,000)</u> |
| CHANGE IN NET ASSETS | <u>\$ (1,341,000)</u> | <u>\$ (1,683,000)</u> |

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 2.72% or \$99,000 in 2008 was primarily due to an increase in parking meter collections.

The increase in general operating expenses of 12.66% or \$482,000 in 2008 was primarily due to increased personnel expense, repair and maintenance, insurance, professional services, and utilities during the current year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Fund's investment in capital assets amounted to \$25,562,000 and \$26,660,000 (net of accumulated depreciation of \$40,576,000 in 2008 and \$38,948,000 in 2007). Capital assets include land, structures and improvements, and equipment, furniture and fixtures. Structures and improvements represent 82.94% in 2008 and 84.03% in 2007, of the total capital assets.

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

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

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

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Capital assets, not being depreciated: | | |
| Land | \$ 10,271,000 | \$ 10,271,000 |
| Construction in progress | <u>879,000</u> | <u>437,000</u> |
| Total capital assets, not being depreciated | <u>11,150,000</u> | <u>10,708,000</u> |
| Capital assets, net of accumulated depreciation: | | |
| Structures and improvements | 14,393,000 | 15,921,000 |
| Equipment, furniture and fixtures | <u>19,000</u> | <u>31,000</u> |
| Total capital assets, net of accumulated depreciation | <u>14,412,000</u> | <u>15,952,000</u> |
| TOTAL CAPITAL ASSETS, NET | <u>\$ 25,562,000</u> | <u>\$ 26,660,000</u> |

Debt Administration

As of June 30, 2008 and 2007, the Fund had long-term debt of \$281,000 and \$540,000, respectively, which is comprised of a General obligation bond and General obligation refunding bonds. See Note (6) of the Fund's financial statements for additional information on the General obligation bond and General obligation refunding bonds:

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

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|-------------------|-------------------|
| Current Installments | \$ 88,000 | \$ 278,000 |
| Bonds payable, net of current | <u>193,000</u> | <u>262,000</u> |
| Total bonds payable | <u>\$ 281,000</u> | <u>\$ 540,000</u> |

The Fund's total debt decreased by \$259,000 in 2008.

CURRENTLY KNOWN DECISIONS AND FACTS

None

PART III
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2009, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Honolulu, Hawaii
February 24, 2009

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

| | |
|--|--------------------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 2,013,026 |
| Accounts receivable, net | 66,109 |
| Inventories | 13,422 |
| TOTAL CURRENT ASSETS | <u>2,092,557</u> |
| NONCURRENT ASSETS | |
| Capital assets, at cost, less accumulated depreciation | <u>25,561,672</u> |
| TOTAL ASSETS | <u>\$ 27,654,229</u> |
| CURRENT LIABILITIES | |
| Accounts payable | \$ 121,642 |
| Accrued liabilities | 93,142 |
| General obligation bonds payable-current | 87,438 |
| TOTAL CURRENT LIABILITIES | <u>302,222</u> |
| NONCURRENT LIABILITIES | |
| Security card deposits | 27,590 |
| Accrued liabilities | 181,755 |
| General obligation bonds payable, less current portion | 193,425 |
| Net OPEB obligation | 125,419 |
| Due to State of Hawaii | 140,962 |
| TOTAL NONCURRENT LIABILITIES | <u>669,151</u> |
| TOTAL LIABILITIES | <u>971,373</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 25,280,809 |
| Unreserved | 1,402,047 |
| TOTAL NET ASSETS | <u>26,682,856</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 27,654,229</u> |

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 ASSETS
YEAR ENDED JUNE 30, 2008

| | |
|---|-----------------------------|
| OPERATING REVENUES | |
| Parking assessments | \$ 2,542,774 |
| Parking meter collections | 1,006,000 |
| Traffic fines | 166,332 |
| Other income | 15,342 |
| TOTAL OPERATING REVENUES | <u>3,730,448</u> |
| | |
| OPERATING EXPENSES | |
| Depreciation | 1,628,029 |
| Personnel services | 1,279,219 |
| Repairs and maintenance | 710,294 |
| Special assessment | 56,080 |
| Others | 618,406 |
| TOTAL OPERATING EXPENSES | <u>4,292,028</u> |
| | |
| LOSS FROM OPERATIONS | <u>(561,580)</u> |
| | |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest income | 77,211 |
| Other income | 16,650 |
| Assessment on ceded land revenues | (26,900) |
| Interest expense | (14,344) |
| TOTAL NONOPERATING REVENUES | <u>52,617</u> |
| | |
| LOSS BEFORE TRANSFERS | (508,963) |
| | |
| OPERATING TRANSFER | <u>(831,560)</u> |
| | |
| CHANGE IN NET ASSETS | (1,340,523) |
| | |
| TOTAL NET ASSETS, BEGINNING OF THE YEAR | <u>28,023,379</u> |
| TOTAL NET ASSETS, END OF THE YEAR | <u>\$ <u>26,682,856</u></u> |

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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------|
| Receipts from parking assessments | \$ 2,553,798 |
| Receipts from parking meter collections | 1,004,451 |
| Receipts from traffic fines | 166,332 |
| Other receipts | 16,540 |
| Payments for personnel services | (1,144,677) |
| Payments for repairs and maintenance | (710,294) |
| Other administrative payments | (596,798) |
| Payments for special assessment | (56,080) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,233,272 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|--------|
| Interest from time certificates of deposits | 77,211 |
| Other receipts | 16,650 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 93,861 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|-----------|
| Payments for construction in progress, net of completed repairs | (441,703) |
| Principal paid on general obligation bonds | (258,619) |
| Fixed assets additions | (87,646) |
| Ceded land payment | (26,970) |
| Interest paid on general obligation bonds | (17,538) |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (832,476) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|-----------|
| Operating transfer out to general fund | (831,560) |
| NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES | (831,560) |

NET DECREASE IN CASH AND CASH EQUIVALENTS (336,903)

| | |
|--|--------------|
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 2,349,929 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | \$ 2,013,026 |

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, 2008

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

| | |
|--|----------------------------|
| Loss from operations | \$ (561,580) |
| Adjustments to reconcile loss from operations to net cash provided by operating activities: | |
| Depreciation | 1,628,029 |
| Net OPEB obligation | 125,419 |
| (Increase) decrease in assets: | |
| Accounts receivable | 10,673 |
| Inventories | (8,427) |
| Increase in liabilities: | |
| Accounts payable | 30,035 |
| Accrued wages payable | 217 |
| Accrued vacation payable | 8,906 |
| | <u>1,794,852</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u><u>1,233,272</u></u> |

See accompanying notes to financial statements.

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Special Assessments - HRS Section 36-27 requires that the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund's receipts. HRS Section 36-30 requires that the Fund be assessed its pro rata share of administrative expenses incurred by the Department of Accounting and General Services (DAGS), based on the ratio of the general administrative service expenses to DAGS' net departmental expenses. There was no HRS Section 36-27 assessment in 2008. The total of the assessment under HRS Section 36-30 was \$56,080 in 2008.

Operating Transfers - Operating 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, 2008, the Fund transferred to the general fund, \$831,560.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

| | |
|-----------------------------------|---------------------|
| | <u>Useful Lives</u> |
| Structures and improvements | 15 - 30 years |
| Equipment, furniture and fixtures | 5 - 12 years |

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

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

2. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The Director of Finance pools and invests any monies of the Fund, which in the Director's judgment, are in excess of the amounts necessary for meeting the specific requirements of the Fund. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. governments, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. For the purposes of the financial statements, the Fund considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents. Total cash and cash equivalents of the Fund at June 30, 2008 were \$2,013,026.

3. CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|-------------------|---------------------------|
| <u>Capital assets not being depreciated:</u> | | | | |
| Land | \$ 10,271,053 | \$ - | \$ - | \$ 10,271,053 |
| Construction in progress | <u>436,780</u> | <u>578,285</u> | <u>136,583</u> | <u>878,482</u> |
| Total capital assets not being depreciated | <u>10,707,833</u> | <u>578,285</u> | <u>136,583</u> | <u>11,149,535</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Structures and improvements | 54,763,344 | 87,646 | - | 54,850,990 |
| Equipment, furniture & fixtures | <u>136,765</u> | <u>-</u> | <u>-</u> | <u>136,765</u> |
| Total capital assets being depreciated | <u>54,900,109</u> | <u>87,646</u> | <u>-</u> | <u>54,987,755</u> |
| Total capital assets | 65,607,942 | 665,931 | 136,583 | 66,137,290 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Structures and improvements | (38,842,090) | (1,616,101) | - | (40,458,191) |
| Equipment, furniture & fixtures | <u>(105,500)</u> | <u>(11,927)</u> | <u>-</u> | <u>(117,427)</u> |
| Total accumulated depreciation | <u>(38,947,590)</u> | <u>(1,628,028)</u> | <u>-</u> | <u>(40,575,618)</u> |
| Total capital assets, net of depreciation | <u>\$ 26,660,352</u> | <u>\$ (962,097)</u> | <u>\$ 136,583</u> | <u>\$ 25,561,672</u> |

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4. CEDED LAND REVENUES

In 1898, the Republic of Hawaii transferred certain lands to the United States of America. Upon Hawaii's admission to the Union in 1959, the United States of America reconveyed title to those lands (collectively, the ceded lands) back to the State to be held as a public land trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians, as defined in the Hawaiian Homes Commission Act, 1920, as amended; (3) development of farm and home ownership; (4) making of public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs (OHA) to administer and manage the proceeds and income derived from a pro rata portion of the ceded lands for native Hawaiians.

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

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

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

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

In January 1994, OHA and its Board of Trustees (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01(First Circuit) ("OHA I")), claiming that the amount paid to OHA was inadequate and alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs seek an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In

STATE OF HAWAII
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4. CEDED LAND REVENUES (Continued)

its answer to OHA's complaint, the State denied all the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

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

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

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

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

STATE OF HAWAII
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4. CEDED LAND REVENUES (Continued)

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

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

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4. CEDED LAND REVENUES (Continued)

supplemental brief, stated, inter alia, that paying OHA a pro-rata share of airport monies violated federal law, and that there was no live, ripe controversy regarding those payments because the Forgiveness Act relieved the State and OHA of any obligation to return improper past payments. Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* have now sued the State for alleged breaches of fiduciary duties as purported trustee of the ceded lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, alleged violations of the Contract Clause of the U.S. Constitution, and alleged misrepresentation and non-disclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior \$28.2 million payments in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

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

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4. CEDED LAND REVENUES (Continued)

Court's order dismissing OHA's complaint in a decision issued September 9, 2005. On December 23, 2005, the Court granted OHA's motion for reconsideration. In a decision issued April 28, 2006, the Court again affirmed the First Circuit Court's order dismissing OHA's complaint and the judgment entered in the State's favor.

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

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

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit Hawaiians' claim to those lands which the Plaintiff requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The Plaintiffs moved for and were granted leave to file immediate appeals from the trial court's ruling to the Hawaii Supreme Court. Those appeals are now pending. Trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of particular parcels of ceded lands at issue has not been scheduled.

On January 31, 2008 the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remanding the case to the circuit court with instructions to issue an order granting the plaintiff's request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands have been resolved." The plaintiffs are expected to request attorney's fees and the State expects to oppose the request.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board members of the HHA and the Director of Finance on

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4. CEDED LAND REVENUES (Continued)

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

The HFDC and HHA were merged after the filings of the second and third lawsuits described above into the HCDCH, which was subsequently bifurcated into the HHFDC and the HPHA. The Hawaii Housing Finance and Development Corporation have replaced the HFDC as a defendant in the second lawsuit, and the Hawaii Public Housing Authority has replaced the HHA as a defendant in the third lawsuit.

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

The Fund has recorded ceded land payments of \$26,900 for 2008, 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 \$5,861 for ceded land payments due as of June 30, 2008.

5. ACCRUED LIABILITES

Accrued liabilities consist of the following:

| | |
|---|-------------------|
| Accrued vacation payable | \$ 211,153 |
| Accrued wages payable | 45,323 |
| Accrued interest payable | 5,321 |
| Accrued workers' compensation | <u>13,100</u> |
| | 274,897 |
| Less current portion | <u>(93,142)</u> |
| Total accrued liabilities, net of current portion | <u>\$ 181,755</u> |

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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, 2008, 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, 2008.

7. GENERAL OBLIGATION BONDS PAYABLE

The following are a general obligation bond and 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, 2008 are as follows:

3.85% - 7.75% General obligation refunding bonds, Series CC, of \$218,603 issued in February 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$15,615 beginning February 1, 1996 through February 1, 2003, and \$15,612 beginning again February 1, 2007 through February 1, 2009; semi-annual interest payments due August 1 and February 1; maturing in February 2009. \$ 31,225

5.00% - 5.25% General obligation refunding bonds, Series CS, of \$20,197 issued in April 1998 under Act 357, Session Laws of Hawaii 1997; annual principal payments of \$2,465 beginning April 1, 2003 and increasing incrementally to \$3,335 through April 1, 2009; semi-annual interest payments due April 1 and October 1; maturing on April 1, 2009. 6,510

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7. GENERAL OBLIGATION BONDS PAYABLE (Continued)

4.00% - 5.00% General obligation refunding bonds, Series CI, of \$550,212 issued in October 1993 under Act 344, Session Laws of Hawaii 1993; annual principal payments of \$36,685 beginning November 1, 1996 through November 1, 2003, and \$36,676 beginning November 1, 2004 through November 1, 2010; semi-annual interest payments due November 1 and May 1; maturing in November 2010. \$ 110,029

5.15% - 6.40% General obligation bonds, Series BW, of \$20,800 issued in March 1992 under Act 300, Session Laws of Hawaii 1995; annual principal payments of \$1,156 beginning March 1, 1995 through March 1, 1996; \$1,155 beginning March 1, 1997 through March 1, 2002; \$1,155 beginning again March 1, 2006 through March 1, 2008; \$1,136 beginning March 1, 2011 and increasing incrementally to \$1,155 through March 1, 2012; semi-annual interest payments due September 1 and March 1; maturing on March 1, 2012. 3,447

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. 936

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. 2,166

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7. GENERAL OBLIGATION BONDS PAYABLE (Continued)

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. \$ 124,267

5.00% General obligation refunding bonds, Series DG, of \$2,283 issued in June 2005 under Act 42, Session Laws of Hawaii 2004; annual principal payments of \$206 beginning July 1, 2009 and increasing incrementally to \$307 through July 1, 2017; semi-annual interest payments due January 1 and July 1; maturing on July 1 2017. 2,283

| | |
|--|-------------------|
| Total bonds payable | <u>280,863</u> |
| Less current installments | <u>(87,438)</u> |
| Bonds payable, net of current installments | <u>\$ 193,425</u> |

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

| Years ending June 30: | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|-------------------|------------------|-------------------|
| 2009 | \$ 87,438 | \$ 9,790 | \$ 97,228 |
| 2010 | 49,007 | 3,292 | 52,299 |
| 2011 | 50,767 | 1,470 | 52,237 |
| 2012 | 14,774 | 443 | 15,217 |
| 2013 | 14,317 | 312 | 14,629 |
| 2014-2018 | <u>64,560</u> | <u>593</u> | <u>65,153</u> |
| | <u>\$ 280,863</u> | <u>\$ 15,900</u> | <u>\$ 296,763</u> |

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8. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

| | Beginning <u>Balance</u> | <u>Increases</u> | <u>Decreases</u> | Ending <u>Balance</u> | <u>Due within one year</u> |
|----------------------------------|-----------------------------|-------------------|-------------------|--------------------------|--------------------------------|
| Security card deposits | \$ 27,590 | \$ - | \$ - | \$ 27,590 | \$ - |
| Accrued liabilities | 268,968 | 104,579 | 98,650 | 274,897 | 93,142 |
| Due to State of Hawaii | 140,962 | - | - | 140,962 | - |
| Net OPEB obligation | - | 125,419 | - | 125,419 | - |
| General obligation bonds payable | <u>539,481</u> | <u>-</u> | <u>258,618</u> | <u>280,863</u> | <u>87,438</u> |
| Total non-current liabilities | <u>\$ 977,001</u> | <u>\$ 229,998</u> | <u>\$ 357,268</u> | <u>\$ 849,731</u> | <u>\$ 180,580</u> |

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.

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

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

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9. RETIREMENT BENEFITS (Continued)

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

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirement as of June 30, 2007, 2006 and 2005, based on the most recent information available, was approximately \$341,896,000, \$318,144,000, and \$251,685,000 respectively. The State contributed 95.8%, 100%, and 100% of its required contributions for those years respectively. The Fund's covered payroll was approximately \$855,495 in 2008. The retirement plan contributions charged to the Fund's operation was \$112,657 in 2008.

Post-Retirement Health Care and Life Insurance Benefits

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

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

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium. Retirees in this category can elect a family plan to cover dependents.

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JUNE 30, 2008

9. RETIREMENT BENEFITS (Continued)

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

There are approximately 37,000 state retirees receiving such benefits. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursements for the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis and the Fund's contribution for the years ended June 30, 2008, 2007, and 2006 were \$70,384, \$95,316, and \$70,464, respectively.

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

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

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

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

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

9. RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2008, total annual required contribution of \$517,755,000 was recognized for post-retirement health care and life insurance benefits by the State of which \$186,112,560 was paid in 2008 and a net OPEB obligation of \$331,642,440 remained as of June 30, 2008. The Fund's share of the total annual required contribution was \$195,803, of which \$70,384 was paid in 2008. A net OPEB obligation of \$125,419 is presented in the statement of net assets at June 30, 2008.

10. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. As of June 30, 2008, sick leave accumulations were approximately \$687,712.

PART IV

INTERNAL CONTROL AND COMPLIANCE SECTION

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

The Auditor
State of Hawaii

We have audited the financial statements of State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund (the “Fund”) as of and for the year ended June 30, 2008, and have issued our report thereon dated, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund’s financial statements that is more than inconsequential will not be prevented or detected by the Fund’s internal control.

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

COPY

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

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

Compliance and Other Matters

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

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

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

Honolulu, Hawaii
February 24, 2009

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, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Status of Prior Year's Comments

No matters were reported.

Current Year's Comments

No matters were reported.

PART VI
CORRECTIVE ACTION PLAN

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

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