STATE OF HAWAI'I
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawai'i 96813-2917

LESLIE H. KONDO
State Auditor

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DEPT. COMM. NO. 334

March 2, 2017

HAND DELIVER

The Honorable Ronald Kouchi
Senate President
415 S. Beretania Street
State Capitol, Room 409
Honolulu, Hawai'i 96813

Re: Audit of Department of Accounting and General Services State Motor Pool Revolving Fund

Dear President Kouchi:

The financial audit report of Department of Accounting and General Services State Motor Pool Revolving Fund for the fiscal year ending 2016, was issued on December 29, 2016 by Egami & Ichikawa CPAs, Inc. The Office of the Auditor retained Egami & Ichikawa CPAs, Inc. to perform the financial audit. For your information, we are enclosing copies of the two-page summary and the report.

The Auditor's Summary and report may be viewed electronically on our website at http://files.hawaii.gov/auditor/Reports/2016_Audit/MotorPool_Summary_2016.pdf and http://files.hawaii.gov/auditor/Reports/2016_Audit/MotorPool2016.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:lfs

Enclosures

ORIGINAL

DEPT. COMM. NO. 334

Auditor's Summary

Financial Audit of the Department of Accounting and General Services, State Motor Pool Revolving Fund

Financial Statements, Fiscal Year Ended June 30, 2016

PHOTO: OFFICE OF THE AUDITOR

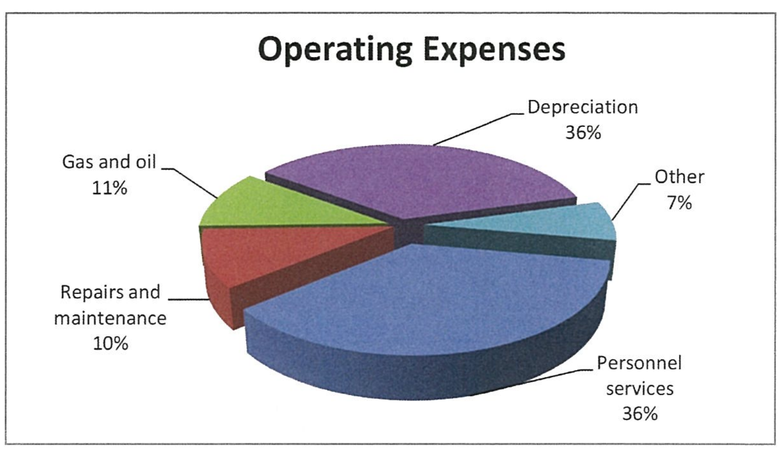
THE PRIMARY PURPOSE *of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Accounting and General Services, State Motor Pool Revolving Fund, as of and for the fiscal year ended June 30, 2016. The audit was conducted by Egami & Ichikawa CPAs, Inc.*

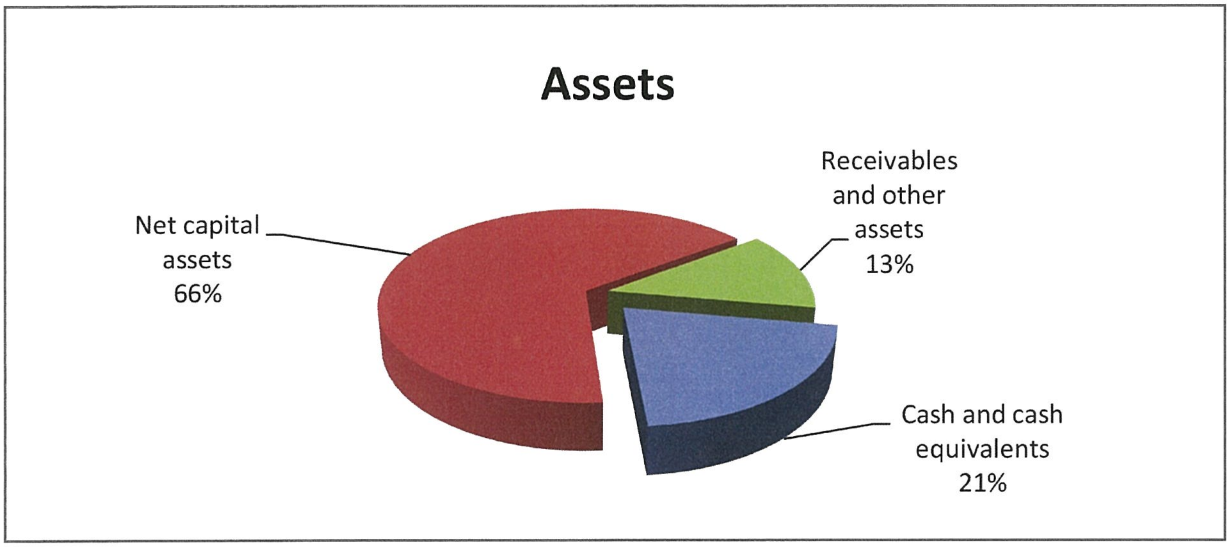
About the Fund

THE STATE MOTOR POOL Revolving Fund was established pursuant to Act 77, Session Laws of Hawai'i 1963 (codified as Section 26–6 of the Hawai'i Revised Statutes). The purpose of the fund is to support safe and economical transportation for state officials and employees requiring the use of passenger vehicles in connection with official state business. All moneys collected are used for the acquisition, operation, repair, maintenance, storage, and disposition of all state-owned vehicles assigned to the State's motor pool.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2016, the fund reported total operating revenues of $2.5 million and total operating expenses of $3 million resulting in a net loss of $500,000. Motor vehicle rentals represented 88 percent or $2.2 million of the fund's total operating revenue, and motor vehicle repairs represented the remaining 12 percent or $300,000. Operating expenses were comprised of vehicle-related costs of $1.9 million and personnel services of $1.1 million.





As of June 30, 2016, assets totaled $4.3 million and liabilities totaled $2.9 million, resulting in a net position balance of $1.4 million. Of this amount, $2.8 million was for investment in capital assets, net of related debt, and an unrestricted net deficit of $1.4 million. Total assets were comprised of cash and cash equivalents of $900,000, net capital assets of $2.8 million, and receivables and other assets of $600,000. Total liabilities include net pension liability of $1.7 million and other liabilities of $1.2 million.

Auditors' Opinion

THE FUND RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Findings

THERE WERE NO REPORTED DEFICIENCIES in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2016_Audit/MotorPool2016.pdf

ORIGINAL

DEPT. COMM. NO. 334

State of Hawaii
Department of Accounting and General Services
State Motor Pool Revolving Fund
Financial and Compliance Audit
June 30, 2016

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 Motor Pool Revolving Fund (the "Fund") as of and for the year ended June 30, 2016. The audit was performed in accordance with our agreement with the Office of the Auditor, State of Hawaii dated April 21, 2016.

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, 2016. More specifically, the objectives of our audit were as follows:

1. To provide a basis for an opinion as to whether the financial statements of the Fund are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United State of America.

2. To report on the Fund's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the Fund with the proper information to plan, evaluate, control and correct program activities.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Fund for the fiscal year ended June 30, 2016.

MICHAEL Y. ICHIKAWA, CPA OWEN M. FUKUMOTO, CPA DANA R. ABE, CPA TAMMIE R. OKAMI, CPA
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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 + Tenenuma CPAs Inc.

Honolulu, Hawaii
December 29, 2016

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

This section of the annual financial report presents an analysis of the Fund's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements which follow this section.

2016 FINANCIAL HIGHLIGHTS

- The Fund's net position decreased by $491,000 or 26.70%, as compared to 2015.
- The Fund's investment in capital assets was $2,800,000, which increased by $238,000 or 9.29%, as compared to 2015.
- The Fund's total liabilities were $2,792,000, which increased by $259,000 or 9.43%, as compared to 2015.
- The Fund's operating revenues stayed relatively the same compared to 2015.
- The Fund's general operating expenses decreased by $76,000 or 2.55% in 2016. The decrease was primarily due to decreases in depreciation expense.

Implementation of GASB Statement Nos. 68 and 71

During fiscal year 2015, the State implemented GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

The adoption of Statement Nos. 68 and 71 has resulted in the restatement of the Fund's financial statements to reflect the reporting of net pension liability in accordance with the provisions of Statement No. 68 and contributions after the measurement date in accordance with Statement No. 71.

Net pension liability of $1,447,000, deferred outflow of resources related to pensions of $130,000, and deferred inflows of resources of $110,000 were reported as of June 30, 2015. Refer to Note 7 for more information regarding the Fund's pension.

REQUIRED FINANCIAL STATEMENTS (Continued)

OVERVIEW OF ANNUAL REPORT

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

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

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

REQUIRED FINANCIAL STATEMENTS (Continued)

Tables 1 and 2 present a comparative view of net position and revenues, expenses, and changes in net position as of June 30, 2016 and 2015.

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

	2016	2015
ASSETS		
Current	$ 1,215,000	$ 1,790,000
Capital assets, net of depreciation	2,800,000	2,562,000
TOTAL ASSETS	4,015,000	4,352,000
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on pension liability	243,000	130,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	243,000	130,000
LIABILITIES		
Current	83,000	84,000
Long-term	2,709,000	2,449,000
TOTAL LIABILITIES	2,792,000	2,533,000
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows on pension liability	118,000	110,000
TOTAL DEFERRED INFLOWS OF RESOURCES	118,000	110,000
NET POSITION		
Invested in capital assets, net of related debt	2,800,000	2,562,000
Unrestricted	(1,452,000)	(723,000)
TOTAL NET POSITION	$ 1,348,000	$ 1,839,000

Net position of the Fund decreased by $491,000 or 26.70% in 2016.

Investment in capital assets (i.e., vehicles, shop equipment, furniture and fixtures), net of the related debt used to purchase the assets represents a large portion of the Fund's net position; $2,800,000 or 69.74% in 2016 and $2,562,000 or 58.87% in 2015. Capital assets are used to provide vehicles for state agencies. The Fund's investment in its capital assets is reported net of debt. The resources needed to repay this debt must be provided by other sources, since the capital assets, mainly the vehicles, cannot be used to liquidate the debt. The remaining unrestricted assets may be used to finance day to day operations without any constraints established by debt, or other legal requirements.

TABLE 2

REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Rounded to nearest $1,000)

	2016	2015
OPERATING REVENUES		
Motor vehicle rentals	$ 2,190,000	$ 2,340,000
Motor vehicle repairs	282,000	168,000
TOTAL OPERATING REVENUES	2,472,000	2,508,000
OPERATING EXPENSES		
General operating and administrative	1,850,000	1,846,000
Depreciation	1,056,000	1,136,000
TOTAL OPERATING EXPENSES	2,906,000	2,982,000
LOSS FROM OPERATIONS	(434,000)	(474,000)
NONOPERATING REVENUES	(54,000)	111,000
LOSS BEFORE TRANSFERS	(488,000)	(363,000)
OPERATING TRANSFERS	-	(38,000)
TRANSFERS OUT OF CAPITAL ASSETS	(3,000)	(13,000)
CHANGE IN NET POSITION	(491,000)	(414,000)
NET POSITION, BEGINNING OF THE YEAR	1,839,000	3,698,000
PRIOR PERIOD ADJUSTMENT	-	(1,445,000)
NET POSITION, END OF THE YEAR	$ 1,348,000	$ 1,839,000

The Fund's vehicle rental rates are established under the jurisdiction of the Comptroller, as Chief of the Department of Accounting and General Services or the Comptroller's designated representative, the division head of the Automotive Management Division. Total operating revenues were relatively the same in 2016 as compared to 2015.

The decrease in general operating expenses of $76,000 or 2.55% in 2016 was primarily due to decreases in depreciation expense.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Fund's investment in capital assets amounted to $2,800,000 and $2,562,000 (net of accumulated depreciation of $5,674,000 in 2016 and $5,264,000 in 2015). Capital assets include vehicles, shop equipment, furniture and fixtures.

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

	2016	2015
ASSETS		
Capital assets, net of accumulated depreciation:		
Vehicles	$ 2,715,000	$ 2,467,000
Shop equipment, furniture and fixtures	85,000	95,000
TOTAL CAPITAL ASSETS, NET	$ 2,800,000	$ 2,562,000

Debt Administration

There was no debt as of June 30, 2016 and 2015.

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

We have audited the accompanying financial statements of the State of Hawaii, Department of Accounting and General Services, State Motor Pool Revolving Fund (the "Fund") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

MICHAEL Y. ICHIKAWA, CPA OWEN M. FUKUMOTO, CPA DANA R. ABE, CPA TAMMIE R. OKAMI, CPA
615 Pi'ikoi Street Suite 2001 Honolulu, Hawai'i 96814-3147 Tel (808) 591-2772 Fax (808) 591-0850 www.eicpas.com

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, 2016, 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.

Emphasis of Matters

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, 2016, 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.

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 - 7 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 December 29, 2016 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 + Takemura CPAs Inc.

Honolulu, Hawaii
December 29, 2016

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
STATEMENT OF NET POSITION
JUNE 30, 2016

CURRENT ASSETS		
Cash and cash equivalents	$	897,503
Motor vehicle receivable, net		304,151
Inventories		13,429
TOTAL CURRENT ASSETS		1,215,083
NONCURRENT ASSETS		
Capital assets, at cost, less accumulated depreciation		2,799,921
TOTAL ASSETS		4,015,004
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on pension liability		242,886
TOTAL DEFERRED OUTFLOWS OF RESOURCES		242,886
CURRENT LIABILITIES		
Accounts payable		28,421
Accrued liabilities		54,602
TOTAL CURRENT LIABILITIES		83,023
NONCURRENT LIABILITIES		
Accrued liabilities		189,717
Net OPEB liability		950,436
Net Pension liability		1,568,505
TOTAL NONCURRENT LIABILITIES		2,708,658
TOTAL LIABILITIES		2,791,681
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows on pension liability		118,372
TOTAL DEFERRED INFLOWS OF RESOURCES		118,372
NET POSITION		
Invested in capital assets, net of related debt		2,799,921
Unrestricted		(1,452,084)
TOTAL NET POSITION	$	1,347,837

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Motor vehicle rentals	$ 2,189,749
Motor vehicle repairs	282,284
TOTAL OPERATING REVENUES	2,472,033
OPERATING EXPENSES	
Depreciation	1,056,776
Personnel services	1,080,863
Gas and oil	312,882
Repairs and maintenance	308,662
Others	147,303
TOTAL OPERATING EXPENSES	2,906,486
LOSS FROM OPERATIONS	(434,453)
NONOPERATING REVENUES	
Net loss on disposition of capital assets	(63,078)
Interest income	9,036
TOTAL NONOPERATING REVENUES	(54,042)
LOSS BEFORE TRANSFERS	(488,495)
TRANSFERS OUT OF CAPITAL ASSETS	(2,767)
CHANGE IN NET POSITION	(491,262)
NET POSITION, BEGINNING OF THE YEAR	1,839,099
NET POSITION, END OF THE YEAR	$ 1,347,837

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from motor vehicle rentals	$ 2,116,739
Receipts from motor vehicle repairs	282,284
Payments for personnel services	(923,159)
Payments for gas and oil	(325,559)
Payments for repairs and maintenance	(293,353)
Other administrative payments	(147,496)
NET CASH PROVIDED BY OPERATING ACTIVITIES	709,456
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest from pooled funds	9,036
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,036
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(1,393,950)
Net proceeds from disposal of capital assets	33,778
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(1,360,172)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(641,680)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	1,539,183
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 897,503

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2016

RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Loss from operations	$	(434,453)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation		1,056,776
(Increase) decrease in assets:		
Motor vehicle rental receivable		(73,010)
Inventories		5,978
Increase (decrease) in liabilities:		
Accounts payable		(3,539)
Accrued wages payable		1,662
Accrued vacation payable		11,081
Net Pension liability		16,682
Net OPEB liability		128,279
		1,143,909
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	709,456

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). 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 used by the Fund are discussed below.

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2016.

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 $1,000,000 per occurrence of property losses, the first $4,000,000 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 $200,000,000, except for terrorism, which is $50,000,000 per occurrence. The annual aggregate for general liability losses is $5,000,000 per occurrence and for crime losses, the limit per occurrence is $10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of $35,000,000 per occurrence and $39,000,000 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, 2016, there were transfers out of operating and capital assets totaling $2,767.

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 salary 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, U.S. government securities and time certificates of deposits with original maturities of three months or less. 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 - The State's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles. Investments in mutual funds are reported at fair value based on quoted market prices. Investments in U.S. government obligations are reported at fair value based on quoted prices or other observable inputs, including pricing matrices. Investments in certificates of deposit and repurchase agreements are reported at fair value using cost-based measures due to the nonparticipating nature of these securities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements - The State measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

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

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

Motor vehicles, 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. Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period. 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. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

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
Motor vehicles, equipment, furniture and fixtures	5 - 7 years
Computer software	5 – 15 years

Use of Estimates - The preparation of financial statements in conformity with GAAP 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.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

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 asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles	$ 7,660,792	$ 1,393,950	$ 745,174	$ 8,309,568
Shop equipment, furniture & fixtures	165,806	-	850	164,956
Total capital assets	7,826,598	1,393,950	746,024	8,474,524
Less accumulated depreciation for:				
Vehicles	(5,193,918)	(1,045,880)	(645,550)	(5,594,248)
Shop equipment, furniture & fixtures	(70,309)	(10,896)	(850)	(80,355)
Total accumulated depreciation	(5,264,227)	(1,056,776)	(646,400)	(5,674,603)
Total capital assets, net of depreciation	$ 2,562,371	$ 337,174	$ 99,624	$ 2,799,921

4. ACCRUED LIABILITES

Accrued liabilities consist of the following:

Accrued vacation payable	$ 196,934
Accrued wages payable	38,685
Accrued workers' compensation	8,700
	244,319
Less current portion	(54,602)
Total accrued liabilities, net of current portion	$ 189,717

5. WORKERS' COMPENSATION RESERVE

The Fund is fully self-insured for workers' compensation and disability claims which are expensed when incurred. The Fund pays a portion of wages, medical bills, and judgments as stipulated by the Department of Labor and Industrial Relations, and other costs for injured workers. During the year ended June 30, 2016, there were no payments for workers' compensation claims and disability expenses. The Fund has recorded a reserve of $8,700 for the expected cost of open reported claims based on historical cost information for closed and open claims as of June 30, 2016.

6. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Accrued liabilities	$ 231,577	$ 49,765	$ 37,023	$ 244,319	$ 54,602
Net OPEB liability	822,157	200,762	72,483	950,436	-
Net Pension liability	1,447,554	227,025	106,074	1,568,505	-
	$2,501,288	$477,552	$215,580	$2,763,260	$ 54,602

7. RETIREMENT BENEFITS

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost sharing multiple-employer defined benefit pension plan administered by the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: http://www.ers.ehawaii.gov/.

Benefits provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability, and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

Noncontributory Class

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

- *Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired prior to July 1, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

- *Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

- *Disability and Death Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

  Death benefits for contributory plan members hired after June 30, 2012 are generally the same as those for contributory plan members hired June 30, 2012 and prior.

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

- *Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

  Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

- *Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2016 were 17.00%. Contributions to the pension plan from the State was $373,881,000 for the fiscal year ended June 30, 2016, of which the Fund's share was $106,074.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Hybrid members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the State reported a liability of approximately $4.3 billion for its proportionate share of net pension liability, of which the Fund's share was $1,568,504. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015, the State's proportion was 57.2380% which was a decrease of 1.2455% from its proportion measured as of June 30, 2014.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65% and will continue to decrease to 7.55% in fiscal year 2017 and to 7.50% in fiscal year 2018, and will remain at 7.50% thereafter. There were no changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2016, the State recognized pension expense of approximately $354,299,000, of which the Fund's share was $122,440. At June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts expressed in thousands):

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 41,650	$ (121,021)
Changes of assumptions	102,682	-
Net difference between projected and actual earnings on pension plan investments	204,549	(351,490)
Changes in proportion and differences between State contributions and proportionate share of contributions	5,804	(26,929)
State contributions subsequent to the measurement date	476,076	-
Total	$ 830,761	$ (499,440)

The $476,076,000 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts expressed in thousands):

Year ended June 30:	
2017	$ (64,048)
2018	(64,048)
2019	(64,048)
2020	52,228
2121	(4,839)
	$ (144,755)

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.50%
Investment rate of return	7.65% per year, compounded annual including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on Client Specific Tables and the 1994 US Group Annuity Mortality Statistic Tables. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2015 valuation were based on the most recent experience study dated December 20, 2010. Between experience studies, the Board of Trustees of the Employees' Retirement System of the State of Hawaii elected to lower the investment return assumption effective with the June 30, 2015 valuation.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total Fixed-income	20.0%	3.1%
Real Estate	7.0% *	9.2%
Private Equity	7.0% *	11.9%
Real Return	5.0% *	6.7%
Covered Calls	5.0%	7.7%
Total Investments	100.0%	

*The real estate, private equity, and real return targets will be the percentage actually invested up to 7.0%, 7.0%, and 5.0%, respectively of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the net pension liability was 7.65%, a decrease from the 7.75% rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Sensitivity of the State's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	Decrease (6.65%)	Rate (7.65%)	Increase (8.65%)
State's proportionate share of the net pension liability	$ 5,465,016	$ 4,314,246	$ 3,213,481

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at http://www.ers.ehawaii.gov.

Payables to the Pension Plan

At June 30, 2016, the amount payable to the ERS was $21,256,000.

7. RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

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 EUTF, 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 ten years or more of credited service, and 50% of the base monthly contribution 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 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten 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.

7. 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 ten years of service, the State makes no contributions. For those retiring with at least ten 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.

Cost

Effective July 1, 2006, the State implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions*. Statement No. 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. Statement No. 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 Statement No. 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*, as amended.

The State is required by GASB Statement No. 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, 2015.

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.

7. RETIREMENT BENEFITS (Continued)

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

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 2016, the State contributed $249,827,000 in addition to amounts necessary to provide current benefits to retirees.

The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in Statement No. 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.

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, 2016, 2015, and 2014 were $72,482, $58,666 and $52,509 respectively.

For the year ended June 30, 2016, total annual required contribution of $698,051,000 was recognized for post-retirement health care and life insurance benefits by the State of which $419,600,000 was paid in 2016 and a net OPEB obligation of $4,335,863,574 remained as of June 30, 2016. The Fund's share of the total annual required contribution was $200,762, of which $72,482 was paid in 2016. A net OPEB obligation of $950,436 is presented in the statement of net position at June 30, 2016.

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.

8. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. As of June 30, 2016, accumulated sick leave was approximately $608,000.

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.

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 Motor Pool Revolving Fund (the "Fund") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated December 29, 2016.

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 December 29, 2016.

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

Egami + Kameoka CPAs Inc.

Honolulu, Hawaii
December 29, 2016

PART V

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
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 MOTOR POOL REVOLVING FUND
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2016

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2016.