STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaiʻi 96813-2917

LESLIE H. KONDO
State Auditor

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DEPT. COMM. NO. 397

July 6, 2018

VIA HAND DELIVERY

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
State Capitol, Room 409
Honolulu, Hawaiʻi 96813

RE: Financial Audit of the State Parking Revolving Fund

Dear President Kouchi:

The financial audit of the State Parking Revolving Fund for the fiscal year ended June 30, 2017, was issued on June 29, 2018. The Office of the Auditor retained KPMG LLP to perform the financial audit. For your information, we are enclosing a copy of the two-page Auditor's Summary and the financial audit report.

You may view the Auditor's Summary and report on our website at:

http://files.hawaii.gov/auditor/Reports/2017_Audit/Parking2017.pdf.

http://files.hawaii.gov/auditor/Reports/2017_Audit/Parking_Summary_2017.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

Auditor's Summary

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

Financial Statements, Fiscal Year Ended June 30, 2017

PHOTO: OFFICE OF THE AUDITOR

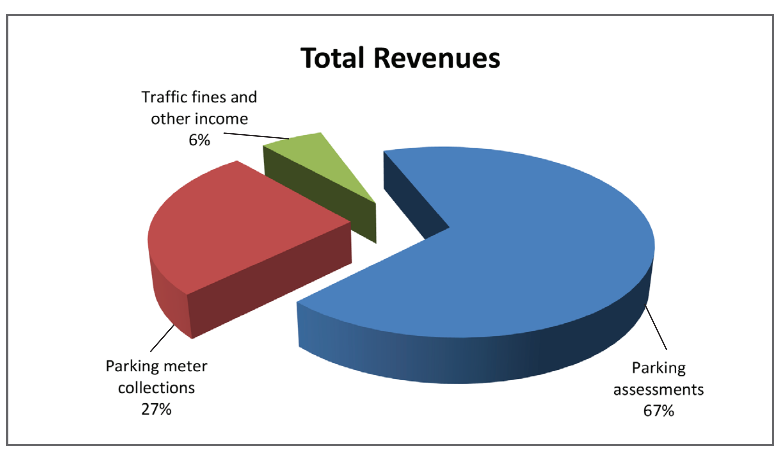
***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Accounting and General Services, State Parking Revolving Fund, as of and for the fiscal year ended June 30, 2017. The audit was conducted by KPMG LLP.*

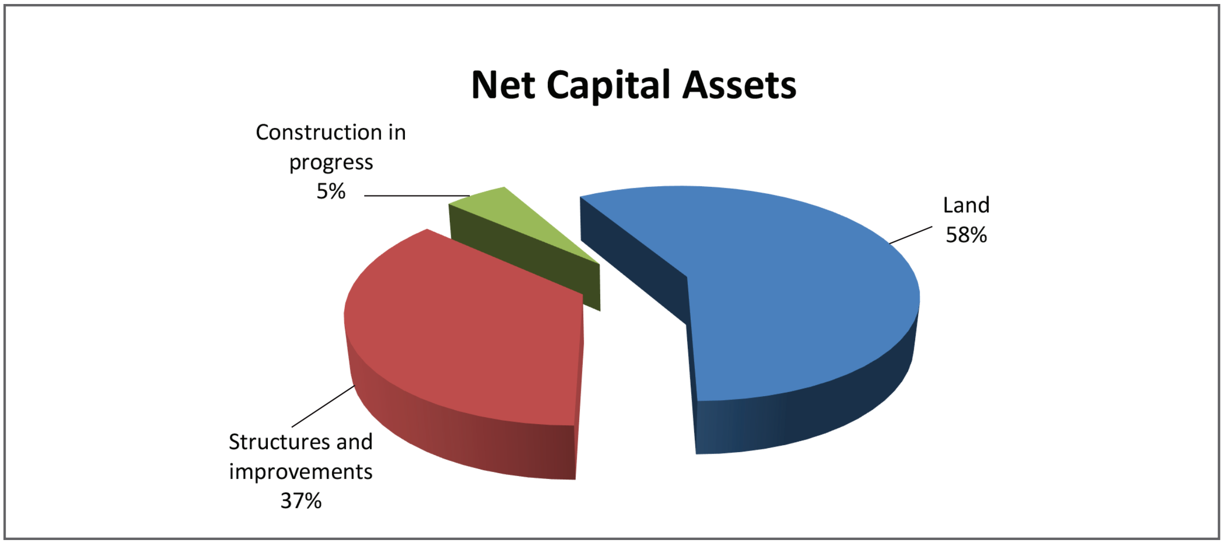
About the Fund

THE STATE PARKING Revolving Fund was established by Act 161, Session Laws of Hawai'i 1963 (Section 107–11, Hawai'i 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. Moneys are 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.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2017, the fund reported total revenues of $3.7 million and total expenses of $3.7 million. Total revenues consisted of parking assessments of $2.5 million, parking meter collections of $1 million, and traffic fines and other income of $200,000. Total expenses consisted of depreciation of $600,000, personnel services of $1.9 million, repairs and maintenance of $500,000, and other expenses of $700,000.





As of June 30, 2017, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $13.2 million. Of this amount, there was an unrestricted net deficit of $2.7 million. Total assets and deferred outflows of resources of $18.8 million were comprised of net capital assets of $15.9 million, cash of $2 million, and receivables and other assets of $900,000. Total liabilities and deferred inflows of resources of $5.6 million were comprised of pension liability of $2.8 million, net other post-employment benefits other than pensions of $2.1 million, and accrued and other liabilities of $700,000.

Capital assets are used to provide parking for employees, contractors with state-related business, and the public. Net capital assets of $15.9 million consist of land of $9.3 million, structures and improvements of $5.8 million, and construction in progress of $800,000.

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/2017_Audit/Parking2017.pdf

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND

Financial Statements

June 30, 2017

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND

Table of Contents

KPMG LLP
Suite 2100
1003 Bishop Street
Honolulu, HI 96813-6400

Independent Auditors' Report

Office of the Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Accounting and General Services, State Parking Revolving Fund, State of Hawaii (the Fund), as of and for the year ended June 30, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' 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 from 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 auditors' 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 for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Accounting and General Services, State Parking Revolving Fund, State of Hawaii, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

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 as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1, the State of Hawaii, including the Fund, adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues* **–** *an amendment of GASB Statements No. 67, No. 68, and No. 73* as of July 1, 2016.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018 on our consideration of the Department's internal control over financial reporting of the Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Department's internal control over financial reporting of the Fund 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.

KPMG LLP

Honolulu, Hawaii
June 29, 2018

This section of the annual financial report presents an analysis of the Department of Accounting and General Services, State Parking Revolving Fund, State of Hawaii's (the Fund's) financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the financial statements which follow this section.

2017 Financial Highlights

- The Fund's net position decreased by $560,000 or 4.05%, as compared to 2016. A transfer out to the State's General Fund totaling $429,000 contributed to this decrease.
- The Fund's investment in capital assets was $15,922,000, which decreased by $257,000 or 1.59%, as compared to 2016.
- The Fund's total liabilities were $5,558,000, which increased by $990,000 or 21.67%, as compared to 2016.
- The Fund's operating revenues decreased by $99,000 or 2.60%, as compared to 2016. The decrease is primarily due to decreases in parking assessments and parking meter collections.
- The Fund's general operating expenses decreased by $604,000 or 13.71% in 2017. The decrease is primarily due to decreases in depreciation and repairs and maintenance expenses.

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 revenues and expenses regardless of when cash is received or paid.

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

Tables 1 and 2 present a comparative view of net position and revenues, expenses, and changes in net position as of June 30, 2017 and 2016.

Table 1
Net Position
(rounded to nearest $1,000)

		2017	2016
Assets:			
Current	$	2,144,000	2,044,000
Capital assets, net of depreciation		15,922,000	16,179,000
Total assets		18,066,000	18,223,000
Deferred outflows of resources		794,000	381,000
Liabilities:			
Current		508,000	533,000
Long-term		5,050,000	4,035,000
Total liabilities		5,558,000	4,568,000
Deferred inflows of resources		57,000	231,000
Net position:			
Invested in capital assets, net of related debt		15,922,000	16,162,000
Unrestricted		(2,677,000)	(2,357,000)
Total net position	$	13,245,000	13,805,000

Net position of the Fund decreased by $560,000 or 4.05% in 2017. A transfer out to the State's General Fund totaling $429,000 contributed to this decrease.

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, $15,922,000 or 88.13% in 2017 and $16,162,000 or 88.69% in 2016 of total assets. 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 the debt.

(Continued)

The Fund’s long-term liabilities increased by $1,015,000 or 25.15% in 2017 primarily due to an increase in net pension liability of $743,000 or 36.71%. The net pension liability increased primarily due to changes in actuarial assumptions.

Table 2
Revenues, Expenses, and Changes in Net Position
(rounded to nearest $1,000)

		2017	2016
Operating revenue:			
Parking assessments	$	2,481,000	2,549,000
Parking meter collections		1,004,000	1,041,000
Traffic fines		226,000	219,000
Other income		3,000	4,000
Total operating revenue		3,714,000	3,813,000
Operating expense:			
General operating and administration		3,150,000	3,416,000
Depreciation		650,000	988,000
Total operating expenses		3,800,000	4,404,000
Loss from operations		(86,000)	(591,000)
Nonoperating revenues, net		15,000	10,000
Operating transfer		(429,000)	(406,000)
Change in net position		(500,000)	(987,000)
Net position, beginning of the year, as previously reported		13,805,000	14,792,000
Adjustment for change in accounting principle		(60,000)	—
Net position, beginning of the year, as restated		13,745,000	14,792,000
Net position, end of the year	$	13,245,000	13,805,000

The Fund’s parking assessment fees and rates are established by the Comptroller, as Chief of the Department of Accounting and General Services or the Comptroller’s designated representative, the division head of the Automotive Management Division. The decrease in operating revenue of $99,000 or 2.60% in 2017 was due to decreased collections from parking assessments and parking meters. The decrease in operating expenses of $604,000 or 13.71% in 2017 was primarily due to decreases in depreciation.

Capital Asset and Debt Administration

Capital Assets

The Fund's investment in capital assets amounted to $15,922,000 and $16,179,000, net of accumulated depreciation of $57,298,000 and $56,648,000 in 2017 and 2016, respectively. Capital assets include land, construction in progress, structures and improvements, and equipment, furniture and fixtures.

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

		2017	2016
Capital assets not being depreciated:			
Land	$	9,271,000	9,271,000
Construction in progress		841,000	448,000
Total capital assets, not being depreciated		10,112,000	9,719,000
Capital assets being depreciated, net of accumulated depreciation:			
Structures and improvements		5,793,000	6,426,000
Equipment, furniture and fixtures		17,000	34,000
Total capital assets being depreciated, net of accumulated depreciation		5,810,000	6,460,000
Total capital assets, at cost, less accumulated depreciation	$	15,922,000	16,179,000

Debt Administration

The Fund had debt of $300 and $17,000 at June 30, 2017 and 2016, respectively, which comprise of general obligation refunding bonds. See Note 6 of the Fund's financial statements for additional information on the general obligation refunding bonds.

Economic Factors and Current Known Facts

None.

See accompanying independent auditors' report.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND

Statement of Net Position

June 30, 2017

Current assets:		
Cash and cash equivalents	$	2,047,224
Accounts receivable, net		86,845
Inventories		10,010
Total current assets		2,144,079
Noncurrent assets:		
Capital assets, at cost, less accumulated depreciation		15,922,592
Total assets	$	18,066,671
Deferred outflows of resources:		
Deferred outflows related to pensions	$	793,534
Total deferred outflows of resources	$	793,534
Current liabilities:		
Accounts payable	$	438,742
Accrued liabilities		69,120
General obligation bonds payable-current		307
Total current liabilities		508,169
Noncurrent liabilities:		
Security card deposits		27,590
Accrued liabilities		155,087
Net OPEB liability		2,100,279
Net pension liability		2,766,781
Total noncurrent liabilities		5,049,737
Total liabilities	$	5,557,906
Deferred inflows of resources:		
Deferred inflows related to pensions	$	56,971
Total deferred inflows of resources	$	56,971
Net position:		
Net investment in capital assets	$	15,922,285
Unrestricted		(2,676,957)
Total net position	$	13,245,328

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2017

Operating revenues:		
Parking assessments	$	2,481,427
Parking meter collections		1,003,563
Traffic fines		225,969
Other income		2,515
Total operating revenues		3,713,474
Operating expenses:		
Depreciation		649,732
Personnel services		1,899,168
Repairs and maintenance		515,254
Others		735,373
Total operating expenses		3,799,527
Loss from operations		(86,053)
Nonoperating revenues (expenses):		
Interest income		13,333
Other income		22,873
Assessment on ceded land revenues		(20,528)
Interest expense		(44)
Total nonoperating revenues		15,634
Loss before transfers		(70,419)
Transfers to State of Hawaii General Fund		(429,447)
Change in net position		(499,866)
Net position, beginning of the year, as previously reported		13,805,308
Adjustment for change in accounting principle		(60,114)
Net position, beginning of the year, as restated		13,745,194
Net position, end of the year	$	13,245,328

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, 2017

Cash flows from operating activities:	
Receipts from parking assessments	$ 2,489,689
Receipts from parking meter collections	989,367
Receipts from traffic fines	225,969
Other receipts	2,515
Payments for personnel services	(1,536,943)
Payments for repairs and maintenance	(515,254)
Other administrative payments	(737,182)
Net cash provided by operating activities	918,161
Cash flows from investing activities:	
Interest from pooled funds	13,333
Other receipts	22,873
Net cash provided by investing activities	36,206
Cash flows from capital and related financing activities:	
Construction in progress additions	(393,091)
Ceded land payment	(20,528)
Principal paid on general obligation bonds	(17,057)
Interest paid on general obligation bonds	(44)
Net cash used in capital and related financing activities	(430,720)
Cash flows from noncapital financing activities:	
Transfer out to State of Hawaii General Fund	(429,447)
Net cash used in noncapital financing activities	(429,447)
Net increase in cash and cash equivalents	94,200
Cash and cash equivalents, beginning of the year	1,953,024
Cash and cash equivalents, end of the year	$ 2,047,224

(Continued)

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND

Statement of Cash Flows

Year ended June 30, 2017

Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$	(86,053)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation		649,732
Increase in assets:		
Accounts receivable		(5,934)
Increase (decrease) in liabilities:		
Accounts payable		(1,809)
Accrued liabilities		(3,186)
Net deferred outflows/inflows of resources		(16,125)
Net OPEB liability		269,174
Net pension liability		112,362
		1,004,214
Net cash provided by operating activities	$	918,161

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

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

The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established by GAAP and used by the Fund are discussed below.

(a) Basis of Accounting

The Fund is an internal service fund (proprietary fund type) as defined by 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.

(b) 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.

(c) Net Position

Net position is reported into two categories: net investment in capital assets, and unrestricted.

(d) 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 defmed cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

(e) 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).

(f) 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:

Buildings and improvements	$	100,000
Equipment, furniture and fixtures		5,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly acquired by the Fund. 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 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
Buildings and improvements	15–30 years
Equipment, furniture and fixtures	5–7 years

(g) Transfers

Transfers between funds at the State 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, 2017, the Fund transferred to the General Fund, $429,447.

(h) 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 earned.

(i) 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.

(j) Traffic Fines

Traffic fines are reported as revenue when received.

(k) 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.

(l) 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.

(m) Recently Issued Accounting Standards

The GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended. The Statement will require governments to report a liability on the face of the financial statements for the other postemployment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The State of Hawaii, including the Fund, is currently evaluating the impact that Statement No. 75 will have on its financial statements.

Effective July 1, 2016, the State of Hawaii, including the Fund, adopted GASB Statement No. 82, *Pension Issues* **–** *an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the*

Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.

The adoption of Statement No. 82 resulted in the restatement of the Fund's fiscal year 2016 financial statements to reflect the new calculation of deferred outflows of resources in accordance with the provisions of Statement No. 82. The restatement of beginning net position of $60,114 were reported as of July 1, 2016. Refer to note 8 for more information regarding the Fund's pension benefits.

(2) Cash and Cash Equivalents

The State has an established policy whereby all unrestricted and certain restricted cash is required to be invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligation of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2017, the amount reported as cash and cash equivalents in the Statement of Net Position reflects the Fund's relative position in the State's investment pool and amounted to $2,047,224.

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.

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State's investment pool and collateralization of those balances in included in the comprehensive annual financial report of the State. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2017, was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	$ 9,271,053	—	—	9,271,053
Construction in progress	448,195	393,091	—	841,286
Total capital assets not being depreciated	9,719,248	393,091	—	10,112,339
Capital assets being depreciated:				
Structures and improvements	62,924,228	—	—	62,924,228
Equipment, furniture & fixtures	184,368	—	—	184,368
Total capital assets being depreciated	63,108,596	—	—	63,108,596
Total capital assets	72,827,844	393,091	—	73,220,935
Less accumulated depreciation for:				
Structures and improvements	(56,497,817)	(633,755)		(57,131,572)
Equipment, furniture & fixtures	(150,794)	(15,977)		(166,771)
Total accumulated depreciation	(56,648,611)	(649,732)	—	(57,298,343)
Total capital assets, net of depreciation	$ 16,179,233	(256,641)	—	15,922,592

(4) Ceded Land Revenues

In 1898, the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the Ceded Lands) to the State of Hawaii to be held as a public land trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. On November 7, 1978, the State Constitution was amended expressly to provide that the Ceded Lands, excluding any "available lands" as defined in the Hawaiian Homes Commission Act of 1920, as amended, were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands as provided by law, to better the conditions of native Hawaiians. In 1979, the Legislature adopted HRS Chapter 10 (Chapter 10), which, as amended in 1980, specified, among other things, that OHA expend 20% of the funds derived by the State from Ceded Lands for the betterment of native Hawaiians. Since then, the State's management of the Ceded Lands and its disposition of the proceeds and income from the Ceded Lands have been challenged by OHA, and individual native Hawaiians, Hawaiians and non-Hawaiians. Claims have been made under Article XII, Sections 4 and 6 of the Hawaii Constitution to the effect that the State has breached the public trust, and OHA has not received from the Ceded Lands all of the income and proceeds that it should be receiving. Except for that claims pending in the *OHA v. HHA* case discussed below, the Legislature, the state and federal courts, and the State's governors have acted to address the concerns raised. However, there can be no assurance that in the future there will not be asserted against the Sate, new claims made under Article XII, Sections 4 and 6 of the Hawaii Constitution that the State has breached the public trust, or the OHA is not receiving from the Ceded Lands all of the income and proceeds that it should be receiving.

In OHA v. HHA filed suits on July 27, 1995 (*OHA v. HHA, et al*., Civil No. 95-2682-07 (1st Cir.)) against the Hawaii Housing Authority (the HHA, since succeeded by the Hawaii Public Housing Authority, as described below), the executive director of the HHA, the board members of the HHA and the Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in *OHA, et al v, State of Hawaii, et al*., Civil No. 94-0205-01 (1st Cir.). The September 12, 2000 decision of the Hawaii Supreme Court (*OHA v. State of Hawaii*, 96 Haw. 399 (2001)) included elements with which OHA disagrees, that would require dismissal of OHA's claims in *OHA v. HHA*, and the case remains pending.

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

The State intends to defend vigorously against OHA's claim in *OHA v. HHA*. Resolution of all claims in favor of OHA and its beneficiaries could have a material adverse effect on the State's financial condition.

The Fund has recorded ceded land payments and assessments of $20,528 for 2017 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 pending resolution of OHA's claim against the State. Included in accounts payable is $5,172 for ceded land payments due as of June 30, 2017.

(5) Accrued Liabilities

Accrued liabilities consist of the following:

Accrued vacation payable	$	154,620
Accrued wages payable		56,487
Accrued workers' compensation		13,100
		224,207
Less current portion		(69,120)
Total accrued liabilities, net of current position	$	155,087

(6) General Obligation Bonds Payable

The following are general obligation refunding bonds allocated to the Fund under acts of various Session Laws of Hawaii. Repayments of allocated bonds are made to the State's General Fund. Details of the allocated bonds payable at June 30, 2017 are as follows:

5.00% General obligation refunding bonds, Series DG, of $2,283 issued in June 2005 under Act 42, Section 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	$	307
Total bonds payable	$	307

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

		Principal	Interest	Total
Year ending June 30:				
2018	$	307	5	312
	$	307	5	312

(7) Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2017 were as follows:

		Beginning balance	Increases	Decreases	Ending balance	Due within one year
Security card deposits	$	27,590	—	—	27,590	—
Accrued liabilities (note 5)		227,393	59,647	(62,833)	224,207	69,120
Net OPEB liability (note 8)		1,831,105	430,736	(161,562)	2,100,279	—
Net pension liability (note 8)		2,023,802	900,141	(157,162)	2,766,781	—
Total noncurrent liabilities	$	4,109,890	1,390,524	(381,557)	5,118,857	69,120

(8) Retirements Benefits

Pension Plan

Employees' Retirement System

(a) 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 define benefit pension plan administered by the State's pension benefits program. Benefits, eligibility, and the 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/.

(b) Benefits Provided

The ERS Pension Trust is comprised of the 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 lieu of vacation for members hired prior to January 1, 1971. For 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 a 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.

(i) Noncontributory Class

- *Retirements Benefits* **–** General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of the 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 the 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 of dependent children, no benefit is payable.

  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 anew 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.

(ii) Contributory Class for Members Hired prior to July 1, 2012

- *Retirements Benefits* **–** General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of the 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 the 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 contribution 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 spouse/reciprocal beneficiary of dependent children, 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 designated beneficiary.

  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.

(iii) Contributory Class for Members Hired After June 30, 2012

- *Retirements Benefits* **–** General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of the 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, prior.

(iv) Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirements 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.

(v) 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.

(c) 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 2017 were 17%. Contributions to the pension plan from the State was $425,954,000 for the fiscal year ended June 30, 2017, of which the Fund's share was $173,286.

On May 18, 2017, the Governor of the State of Hawaii signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for all employees increases to 18% on July 1, 2017; 19% on July 1, 2018; 22% on July 1, 2019; and 24% on July 1, 2020.

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. Contributory members hired after June 30, 2012 are required to contribute 9.8% 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.

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

At June 30, 2017, the State reported a liability of approximately $6.6 billion for its proportionate share of net pension liability, of which the Fund's share was $2,766,781. The net pension liability was measured as of June 30, 2016, 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 the State's share of contributions to the pension plan. At June 30, 2016, the State's proportion was 56.5997% which was a decrease of 0.6387% from its proportion measured as of June 30, 2015. At June 30, 2016, the Fund's proportion was 0.03% which was a decrease of 0.01% from its proportion measured as of June 30, 2015.

There were significant changes in actuarial assumptions, effective June 30, 2016, based on the Five-Year Experience Study report dated July 5, 2016 that resulted in a significant increase in measurement of the total pension liability. Primary drivers for the increase include a decrease in the investment return assumption and discount rate from 7.65% as of June 30, 2015 to 7.00% as of June 30, 2016; and a decrease in the mortality assumptions for longer life expectancy and an explicit assumption for continued future mortality improvement (generational approach).

There were no other changes between the measurement date, June 30, 2016, and the reporting date, June 30, 2017, that are expected to have a significant effect on the proportionate share of the net pension liability.

(Continued)

For the year ended June 30, 2017, the State recognized pension expense of approximately $786,112,000, of which the Fund's share was $269,524. At June 30, 2017, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Differences between expected actual experience	$	50,861	(46,627)
Changes of assumptions		439,011	—
Net difference between projected and actual earnings on pension plan investments		122,070	—
Changes in proportion and differences between Fund contributions and proportionate share of contributions		8,306	(10,344)
Fund contributions subsequent to the measurement date		173,286	—
Total	$	793,534	(56,971)

The $173,286 reported as deferred outflows of resources related to pensions resulting from the Fund's 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:

Year ended June 30:		
2018	$	112,261
2019		112,261
2020		152,166
2021		132,824
2022		53,765
	$	563,277

(e) Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii, on December 12, 2016, based on the most recent experience study dated July 5, 2016:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate return	7.00% per year, compounded annual including inflation

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

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 the 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:

	Target allocation	Long-term expected real rate of return
Strategic allocation (risk based classes):		
Broad growth	63.0 %	8.4 %
Principal protection	10.0	2.2
Real return	20.0	6.2
Crisis risk offset	7.0	5.5
Total investments	100.0 %	

(f) Discount Rate

The discount rate used to measure the net pension liability was 7.00%, a decrease from the 7.65% rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that the 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 return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

(g) Sensitivity of the Fund's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

		Decrease (6.00%)	Rate (7.00%)	Increase (8.00%)
Fund's proportionate share of the net pension liability	$	2,903,591	2,766,781	1,745,881

(h) Pension Plan Fiduciary Net Pension

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.

Post Health Retirement Health Care and Life Insurance Benefits

(a) Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the Sate 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 retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 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 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.

(b) 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 retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

Prior to fiscal year 2014, the State’s base contribution levels were tied to the pay-as you-go amounts necessary to provide current benefits to retirees. In fiscal year 2017, the State contributed $327,750,000 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, 2017, 2016, and 2015 were $161,562, $107,761 and $98,333 respectively.

For the year ended June 30, 2017, total annual required contribution of $698,813,000 was recognized for post-retirement health care and life insurance benefits by the State of which $609,800,000 was paid in 2017 and a net OPEB obligation of $4,338,677,000 remained as of June 30, 2017. The Fund's share of the total annual required contribution was $430,736, of which $161,562 was paid in 2017. A net OPEB obligation of $2,100,279 is presented in the statement of net position at June 30, 2017.

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.

(9) Commitments and Contingencies

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. As of June 30, 2017, accumulated sick leave was approximately $718,000.

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.

(10) 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.

(a) Property and Liability Insurance

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.

(b) Worker's 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 the other costs for injured workers. During the year ended June 30, 2017, there were no payments for workers' compensation claims and disability expenses.

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Independent Auditors' 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, 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 Department of Accounting and General Services, State Parking Revolving Fund, State of Hawaii (the Fund), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2018.

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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, 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*.

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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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Honolulu, Hawaii
June 29, 2018