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

DEPT. COMM. NO. 445

LESLIE H. KONDO
State Auditor

(808) 587-0800
lao.auditors@hawaii.gov

April 1, 2020

VIA EMAIL

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

VIA EMAIL

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawaiʻi State Capitol, Room 431
Honolulu, Hawaiʻi 96813

RE: Financial Audit of the State Motor Pool Revolving Fund

Dear President Kouchi and Speaker Saiki:

The financial audit of the State Motor Pool Revolving Fund for the fiscal year ended June 30, 2019, was issued on February 19, 2020. The Office of the Auditor retained KPMG LLP to perform the financial audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial audit report.

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

http://files.hawaii.gov/auditor/Reports/2019_Audit/MotorPool2019.pdf; and

http://files.hawaii.gov/auditor/Reports/2019_Audit/MotorPool_Summary_2019.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo
Enclosures
ec/attach (Auditor's Summary only): Senators
Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

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, 2019

PHOTO: OFFICE OF THE AUDITOR

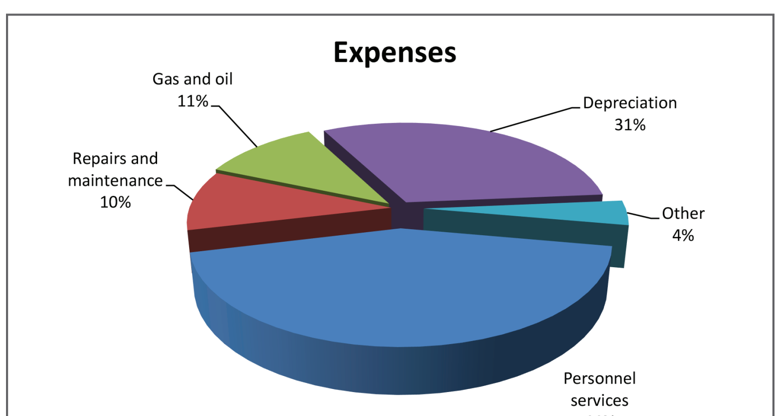
THE PRIMARY PURPOSE *of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Accounting and General Services, State Motor Pool Revolving Fund, as of and for the fiscal year ended June 30, 2019. The audit was conducted by KPMG LLP.*

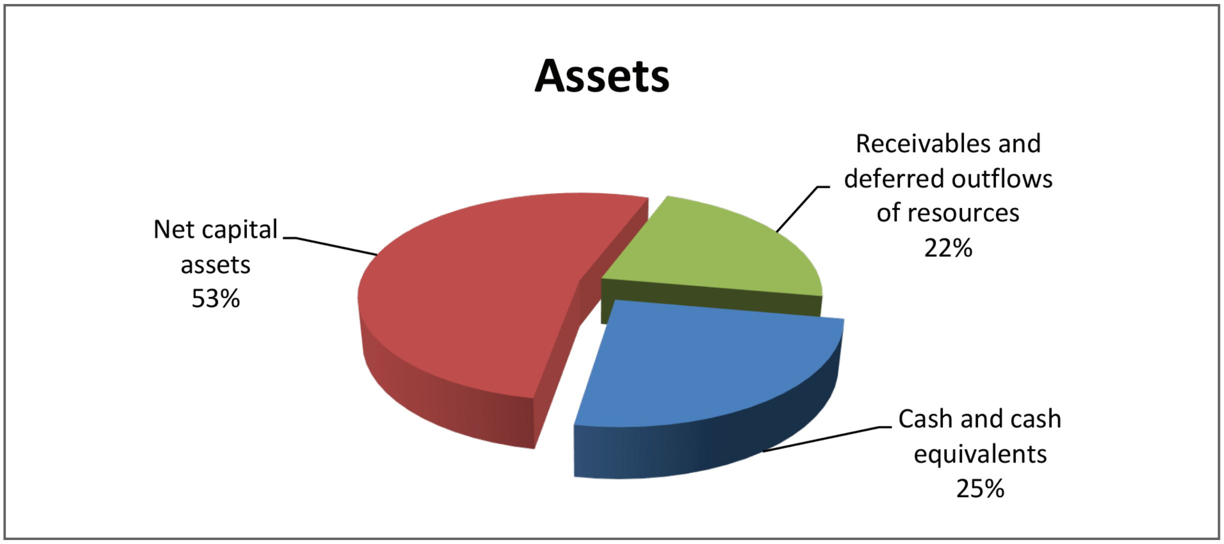
About the Fund

The State Motor Pool Revolving Fund (Fund) was established pursuant to Act 77, Session Laws of Hawai'i 1963 (codified as Section 105-11, Hawai'i Revised Statutes). The Fund is responsible for providing safe and economical transportation for state personnel 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 motor pool.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2019, the Fund reported total revenues of $2.3 million and total expenses of $2.9 million, resulting in a decrease in net position of $600,000 (or 381 percent). Motor vehicle rentals and repairs represented 99 percent of the Fund's total revenue and other income represented 1 percent. Total expenses of $2.9 million consisted of personnel services of $1.3 million, depreciation of $900,000, gas and oil of $300,000, repairs and maintenance of $300,000, and other costs of $100,000.





As of June 30, 2019, total assets and deferred outflows of resources of $3.7 million were comprised of (1) cash and cash equivalents of $900,000, (2) net capital assets of $2 million, and (3) receivables and deferred outflows of resources of $800,000. Total liabilities and deferred inflows of resources of $4.6 million were comprised of (1) net pension liability of $2.4 million, (2) net other postemployment benefits other than pension of $1.9 million, and (3) other liabilities and deferred inflows of resources of $300,000.

Auditors' Opinion

THE FUND RECEIVED AN UNMODIFIED OPINION that its 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/2019_Audit/MotorPool2019.pdf

KPMG

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND

Financial Statements

June 30, 2019

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND

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

Independent Auditors' Report

The Auditor
State of Hawaii:

Report on the Financial Statements

We have audited the accompanying financial statements of the State Motor Pool Revolving Fund of the Department of Accounting and General Services, State of Hawaii (the Fund), as of and for the year ended June 30, 2019, and the related notes to the 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 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 State Motor Pool Revolving Fund, Department of Accounting and General Services, State of Hawaii, as of June 30, 2019, 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.

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 Department of Accounting and General Services, State of Hawaii as of June 30, 2019, 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.

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 February 19, 2020 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 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 Fund's 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.

KPMG LLP

Honolulu, Hawaii
February 19, 2020

This section of the annual financial report presents an analysis of the Department of Accounting and General Services, State Motor Pool Revolving Fund, State of Hawaii's (the Fund's) financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the financial statements that follow this section.

2019 Financial Highlights

- The Fund's net position decreased by $663,000, or 381.03%, as compared to 2018.
- The Fund's investment in capital assets was $1,974,000, which increased by $10,000, or 0.51%, as compared to 2018.
- The Fund's total liabilities were $4,498,000, which increased by $32,000, or 0.72%, as compared to 2018.
- The Fund's operating revenues decreased by $200,000, or 8.18%, as compared to 2018.

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 reflects 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, 2019 and 2018.

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

		2019	2018
Assets:			
Current assets	$	1,034,000	1,602,000
Capital assets, net of accumulated depreciation		1,974,000	1,964,000
Total assets	$	3,008,000	3,566,000
Deferred outflows of resources	$	725,000	760,000
Liabilities:			
Current liabilities	$	107,000	134,000
Long-term liabilities		4,391,000	4,332,000
Total liabilities	$	4,498,000	4,466,000
Deferred inflows of resources	$	72,000	35,000
Net position:			
Net investment in capital assets	$	1,974,000	1,964,000
Unrestricted		(2,811,000)	(2,138,000)
Total net position	$	(837,000)	(174,000)

Net position of the Fund decreased by $663,000, or 381.03%, in 2019.

The net investment in capital assets represents a large portion of the Fund's net position, $1,974,000 or 65.62% in 2019 and $1,964,000 or 55.08% in 2018 of total assets. 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.

Current assets decreased by $568,000, or 35.46%, in 2019 primarily due to a decrease in cash and cash equivalents of approximately $430,000 due to the acquisition of capital assets in 2019.

(Continued)

The Fund's long-term liabilities increased by $59,000, or 1.36%, in 2019 primarily due to an increase in net pension liability of $63,000, or 2.75%.

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

		2019	2018
Operating revenues:			
Motor vehicle rentals and repairs	$	2,246,000	2,446,000
Total operating revenues		2,246,000	2,446,000
Operating expense:			
General operating and administration		2,019,000	1,867,000
Depreciation		918,000	945,000
Total operating expenses		2,937,000	2,812,000
Loss from operations		(691,000)	(366,000)
Nonoperating revenues		28,000	3,000
Loss before transfers		(663,000)	(363,000)
Transfers out of capital assets		—	—
Change in net position		(663,000)	(363,000)
Net position, beginning of the year, as previously reported		(174,000)	897,000
Adjustment for change in accounting principle		—	(708,000)
Net position, beginning of the year, as restated		(174,000)	189,000
Net position, end of the year	$	(837,000)	(174,000)

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 and expenses were relatively the same in 2019 as compared to 2018.

(Continued)

Capital Asset and Debt Administration

Capital Assets

The Fund's investment in capital assets amounted to $1,974,000 and $1,964,000, net of accumulated depreciation of $7,060,000 and $6,172,000 in 2019 and 2018, respectively. Capital assets include vehicles, shop equipment, furniture, and fixtures.

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

		2019	2018
Capital assets, net of accumulated depreciation:			
Vehicles	$	1,889,000	1,863,000
Shop equipment, furniture, and fixtures		85,000	101,000
Total capital assets, net	$	1,974,000	1,964,000

Debt Administration

There was no debt as of June 30, 2019 and 2018.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE MOTOR POOL REVOLVING FUND

Statement of Net Position

June 30, 2019

Current assets:		
Cash and cash equivalents	$	926,365
Motor vehicle receivable, net		90,294
Inventories		17,095
Total current assets		1,033,754
Noncurrent assets:		
Capital assets, at cost, less accumulated depreciation		1,974,171
Total assets	$	3,007,925
Deferred outflows of resources:		
Deferred outflows related to pensions	$	537,709
Deferred outflows related to OPEB		186,841
Total deferred outflows of resources	$	724,550
Current liabilities:		
Accounts payable	$	44,533
Accrued liabilities		61,888
Total current liabilities		106,421
Noncurrent liabilities:		
Accrued liabilities		159,266
Net OPEB liability		1,874,582
Net pension liability		2,357,465
Total noncurrent liabilities		4,391,313
Total liabilities	$	4,497,734
Deferred inflows of resources:		
Deferred inflows related to pensions	$	34,636
Deferred inflows related to OPEB		37,286
Total deferred inflows of resources	$	71,922
Net position:		
Invested in capital assets, net of related debt	$	1,974,171
Unrestricted		(2,811,352)
Total net position	$	(837,181)

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, 2019

Operating revenues:		
Motor vehicle rentals and repairs	$	2,245,471
Total operating revenues		2,245,471
Operating expenses:		
Personnel services		1,276,909
Depreciation		918,075
Gas and oil		320,799
Repairs and maintenance		298,809
Others		122,019
Total operating expenses		2,936,611
Loss from operations		(691,140)
Nonoperating revenues:		
Net gain on disposition of capital assets		17,223
Interest income		10,684
Total net nonoperating revenues		27,907
Change in net position		(663,233)
Net position, beginning of the year		(173,948)
Net position, end of the year	$	(837,181)

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, 2019

Cash flows from operating activities:		
Receipts from motor vehicle rentals and repairs	$	2,383,073
Payments for personnel services		(1,145,093)
Payments for gas and oil		(303,131)
Payments for repairs and maintenance		(342,137)
Other administrative payments		(123,030)
Net cash provided by operating activities		469,682
Cash flows from investing activity:		
Interest from pooled funds		10,684
Net cash provided by investing activity		10,684
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(927,959)
Net proceeds from disposal of capital assets		17,223
Net cash used in capital and related financing activities		(910,736)
Net decrease in cash and cash equivalents		(430,370)
Cash and cash equivalents, beginning of the year		1,356,735
Cash and cash equivalents, end of the year	$	926,365
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$	(691,140)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation		918,075
Decrease in assets:		
Motor vehicle rental receivable		137,602
Increase (decrease) in liabilities:		
Accounts payable		(26,671)
Accrued liabilities		(23,089)
Net deferred outflows/inflows of resources		(40,552)
Net pension liability		162,946
Net OPEB liability		32,511
		1,160,822
Net cash provided by operating activities	$	469,682

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 105-11 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 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 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

The Fund classifies its investments in the State’s investment pool (Pool) as cash and cash equivalents, regardless of the underlying maturity of the Pool's investments as the Fund can withdraw amounts from the Pool without penalty or notice. The Fund classifies all other investments with maturities of three months or less at the time of purchase as cash equivalents.

(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.

(f) 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 $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
Motor vehicles, 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, 2019, there were no transfers out of operating and capital assets.

(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.

(Continued)

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) 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.

(k) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments 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.

(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, 2019, 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 $926,365. The Fund has the ability to withdraw cash from the State's investment pool at any time without prior notice or penalty.

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 is 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 asset activity for the year ended June 30, 2019 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Vehicles	$ 7,935,541	927,959	(30,448)	8,833,052
Shop equipment, furniture, and fixtures	200,889	—	—	200,889
Total capital assets	8,136,430	927,959	(30,448)	9,033,941
Less accumulated depreciation for:				
Vehicles	(6,071,985)	(902,597)	30,448	(6,944,134)
Shop equipment, furniture, and fixtures	(100,158)	(15,478)	—	(115,636)
Total accumulated depreciation	(6,172,143)	(918,075)	30,448	(7,059,770)
Total capital assets, net of depreciation	$ 1,964,287	9,884	—	1,974,171

(Continued)

(4) Accrued Liabilities

Accrued liabilities consist of the following:

Accrued vacation payable	$	166,483
Accrued wages payable		45,971
Accrued workers' compensation		8,700
		221,154
Less current portion		(61,888)
Total accrued liabilities, net of current portion	$	159,266

(5) Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2019 were as follows:

		Beginning balance	Increases	Decreases	Ending balance	Due within one year
Accrued liabilities (note 4)	$	244,243	196,850	(219,939)	221,154	61,888
Net OPEB liability (note 6)		1,855,784	188,776	(169,978)	1,874,582	—
Net pension liability (note 6)		2,294,347	282,823	(219,705)	2,357,465	—
	$	4,394,374	668,449	(609,622)	4,453,201	61,888

(6) Retirement Benefits

Pension Plan

(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, 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/.

(b) Benefits Provided

The ERS Pension Trust comprises 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 2.00%) 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 pain 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 pain in 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 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.

(i) 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 10 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.

  Ordinary death benefits are available to employees who were active at time of death with at least 10 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.

(ii) 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 dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

  Ordinary death benefits area 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 10 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

- *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 10 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.

(iv) 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 10 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 10 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 2019 were 19%. Contributions to the pension plan from the State were approximately $481,656,000 for the fiscal year ended June 30, 2019, of which the Fund’s share was $129,853.

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, 2019, the State reported a liability of approximately $6.8 billion for its proportionate share of net pension liability, of which the Fund’s share was $2,357,465. The net pension liability was measured as of June 30, 2018, 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, 2018, the State’s proportion was 56.0898%, which was a decrease of 0.5175% from its proportion measured as of June 30, 2017. The net pension liability was measured as of June 30, 2018, the Fund’s proportion was 0.03% which was an increase of 0.01% from its proportion measured as of June 30, 2017.

There was no change in actuarial assumptions as of June 30, 2017 to June 30, 2018. There were no changes between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2019, the State recognized pension expense of approximately $860,066,000, of which the Fund's proportionate share was $282,823. At June 30, 2019, 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 and actual experience	$	38,547	(16,896)
Changes of assumptions		272,275	—
Net difference between projected and actual earnings on pension plan investments		91,592	—
Changes in proportion and differences between Fund contributions and proportionate share of contributions		5,442	(17,740)
Fund contributions subsequent to the measurement date		129,853	—
Total	$	537,709	(34,636)

The $129,853 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, 2020. 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 ending June 30:		
2020	$	176,190
2021		147,240
2022		54,099
2023		(4,682)
2024		373
	$	373,220

(e) *Actuarial Assumptions*

The total pension liability in the June 30, 2018 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 %
Investment rate of return	7.00% per year, compounded annual including inflation
General wage inflation	3.50 %
Salary increases	3.50% to 7.00%, including inflation
Cost-of-living adjustments (COLAs)*	
Membership date prior to July 1, 2012	2.50 %
Membership date after June 30, 2012	1.50 %

* COLAs are not compounded; and are based on original pension amounts.

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 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 nominal rates of return (real returns and inflation) by the target asset allocation percentage. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target allocation	Expected long-term geometric rate of return
Strategic allocation (risk-based classes):		
Broad growth	63.0 %	7.10 %
Principal protection	7.0	2.50
Real return	10.0	4.10
Crisis risk offset	20.0	4.60
Total investments	100.0 %	

(f) Discount Rate

The discount rate used to measure the net pension liability was 7.00%. 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.

(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	$ 3,066,486	2,357,465	1,772,987

(h) 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 completed financial statements are available at http://www.ers.ehawaii.gov.

Post-Retirement Health Care and Life Insurance Benefits

(i) Plan Description

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 replace the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at PO Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 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.

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.

At July 1, 2018, the State's plan members covered by benefit terms consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	36,340
Inactive plan members entitled to but not yet receiving benefits	7,588
Active plan members	50,519
Total plan members	94,447

(j) Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the State were approximately $623,633,000 for the fiscal year ended June 30, 2019, of which the Fund's share was $165,845.

(k) OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the State reported a net OPEB liability of approximately $6.97 billion, of which the Fund's proportionate share was $1,874,582. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the net OPEB liability.

For the year ended June 30, 2019, the State recognized OPEB expense of approximately $643,257,000 of which the Fund's proportionate share was $167,780. At June 30, 2019, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$	—	(34,690)
Net difference between projected and actual earnings on OPEB plan investments		—	(2,596)
Changes in assumptions		20,996	—
Fund contributions subsequent to the measurement date		165,845	—
Total	$	186,841	(37,286)

The $165,845 reported as deferred outflows of resources related to OPEB resulting from the Fund's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:		
2020	$	(3,593)
2021		(3,593)
2022		(3,593)
2023		(2,806)
2024		(2,605)
Thereafter		(100)
	$	(16,290)

(Continued)

(l) Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii, on January 8, 2018, based on the experience study covering the five-year period ended June 30, 2015:

Inflation	2.50%	
Salary increases	3.50% to 7.00% including inflation	
Discount rate	7.00%	
Investment rate of return	7.00%	
Healthcare cost trend rates:		
PPO*		Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
HMO*		Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
Part B & Base Monthly Contribution (BMC)		Initial rate of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental		Initial rates of 5.00% for first three years, followed by 4.00%
Vision		Initial rates of 0.00% for first three years, followed by 2.50%
Life insurance	0.00%	
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the BMC. Healthcare participation of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B.	

* Blended rates for medical and prescription drug

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
U.S. equity	15.0 %	5.05 %
International equity	17.0	6.50
U.S. microcap	7.0	7.00
Private equity	10.0	8.65
Core real estate	10.0	4.10
Private credit	6.0	5.25
Global options	7.0	4.50
Core bonds	3.0	1.30
Long treasuries	6.0	1.90
Trend following	9.0	3.00
Alternative Risk Premia	5.0	2.45
TIPS	5.0	0.75
Total investments	100.0 %	

(m) Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

(n) OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer 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 on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at *http://eutf.hawaii.gov*.

(o) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the Fund's net OPEB liability calculated using the discount rate of 7.00%, as well as what the Fund's net OPEB 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 discount rate:

		Decrease (6.00)%	Discount rate (7.00%)	Increase (8.00%)
Fund's proportionate share of the net OPEB liability	$	2,216,205	1,874,582	1,606,149

The following table presents the Fund's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the Fund's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

		1.00% Decrease	Healthcare trend rate	1.00% Increase
Fund's proportionate share of the net OPEB liability	$	1,591,520	1,874,582	2,241,934

(7) 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, 2019, accumulated sick leave was approximately $565,000.

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.

(8) 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 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 other costs for injured workers. During the year ended June 30, 2019, 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 State Motor Pool Revolving Fund of the Department of Accounting and General Services, State of Hawaii (the Fund), which comprise the statement of financial position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 19, 2020.

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*.

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
February 19, 2020