STATE OF HAWAII

BASIC FINANCIAL STATEMENTS, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, AND OMB CIRCULAR A-133 COMPLIANCE REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Prepared by Accounting Division
Department of Accounting and General Services

Independent Audit Contracted and Administered by
Office of the State Auditor

STATE OF HAWAII

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INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2010, which collectively comprise the State of Hawaii's basic financial statements (pages 23–110) as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Department of Transportation — Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, which are discretely presented component units. These financial statements that we did not audit reflect the following percentages of total assets and program revenues or additions for the indicated opinion units.

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Program Revenues / Additions
Governmental Activities	- %	- %
Business-Type Activities	98%	62%
Aggregate Discretely Presented Component Units	100%	100%
Fiduciary Funds	- %	5%

Those financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Transportation — Airports and Harbors Divisions, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, is based solely on the reports of the other auditors.

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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Hawaii's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net assets or financial position of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii, as of June 30, 2010, and the respective changes in financial position (and respective cash flows where applicable), thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011 (December 9, 2011 as to CFDA No. 81.042, *Weatherization Assistance for Low-Income Persons*, and CFDA No. 94.006, *AmeriCorps*) on our consideration of the State of Hawaii'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis (pages 3–21) and schedule of revenues and expenditures — budget and actual and schedules of funding progress (pages 106–110 and 117–122) are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State of Hawaii's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the State of Hawaii's basic financial statements. The combining and individual fund statements and schedules (pages 113–116 and 124–130) and the supplemental information presented in the schedule of expenditures of Federal awards are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Nonprofit Organizations* and are not a required part of the basic financial statements. This supplementary information is the responsibility of the State of Hawaii's management. The combining and individual fund statements, schedules and the schedule of expenditures of Federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte + Touche LLP

October 12, 2011

As management of the State of Hawaii (the "State"), we offer readers of the State's basic financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2010.

Financial Highlights

Government-Wide

Highlights

The assets of the State exceeded its liabilities at June 30, 2010 by $5.4 billion (net assets). Unrestricted net assets which may be used to meet the State's ongoing obligations to citizens and creditors was a negative $813.6 million, a decrease of $939.7 million from the previous year. Net assets of governmental activities and business-type activities decreased by $1.0 billion and $21.5 million, respectively. The combined decrease to the State was $1.0 billion from the prior fiscal year.

Fund Highlights

At June 30, 2010, the State's Governmental Funds reported combined ending fund balances of $950.7 million, a decrease of $271.5 million from the prior fiscal year. Of this amount, $32.9 million, or 3.5%, of total fund balances was in the General Fund, and the remaining $917.8 million represent amounts in other funds designated for specific purposes. The Proprietary Funds reported net assets at June 30, 2010, of $2.9 billion, a decrease of $21.5 million during the fiscal year.

Restatements

The accompanying Proprietary Funds, Component Units, and Government Wide financial statements reflected a restatement of June 30, 2009 net assets (See Note 15 to the basic financial statements). The 2009 assets and liabilities used for comparative purposes within this section have not been restated.

Long-Term Liabilities

The State's long-term liabilities increased during the current fiscal year to $8.7 billion, an increase of $1.4 billion. During fiscal 2010, the State issued $532 million in general obligation bonds for the purpose of financing the Hawaiian Home Lands Trust settlement and public improvement projects. The State issued $515.3 million in general obligation refunding bonds to advance refund $510.5 million of previously issued outstanding general obligation bonds. In accordance with GASB 45, the State increased the liability for *Postemployment Benefits Other Than Pension*, to $1.4 billion, an increase of $640.9 million for the fiscal year ended June 30, 2010.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: (1) Government-Wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The Government-Wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

Both of the Government-Wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues ("governmental activities") from other functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). The governmental activities of the State include general government, public safety, conservation of natural resources, highways, health, welfare, education, culture and recreation, urban redevelopment and housing, economic development and assistance, and interest on long-term debt. The business-type activities of the State include the Department of Transportation – Airports Division ("Airports"), Department of Transportation – Harbors Division ("Harbors"), and the Unemployment Compensation Fund, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The Government-Wide financial statements include not only the State itself (known as the "Primary Government"), but also the activities of seven legally separate Component Units: the Hawaii Community Development Authority, the Hawaii Health Systems Corporation, the Hawaii Housing Finance and Development Corporation, the Hawaii Hurricane Relief Fund, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, and the University of Hawaii, comprised of the State's public institutions of higher education, for which the State is financially accountable. Financial information for these Component Units is reported separately from the financial information presented for the Primary Government itself. The Component Units issue separate financial statements containing management's discussion and analysis.

The Government-Wide financial statements can be found on pages 23–25 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: (1) Governmental Funds, (2) Proprietary Funds, and (3) Fiduciary Funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide financial statements. However, unlike the Government-Wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the Government-Wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the Government-Wide financial statements.

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, and Med-Quest Special Revenue Fund, each of which is considered to be a major fund. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor Governmental Funds is provided in the form of combining financial statements in the supplementary information section of this report.

The State adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison schedule has been provided for the General Fund and each Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule for the General Fund is located in the required supplementary information and the budgetary comparison statements for each of the Special Revenue Funds are located in the supplementary information section of this report.

The basic Governmental Funds financial statements can be found on pages 26 – 29 of this report.

Proprietary Funds

Proprietary Funds are used to show activities that operate more like those of commercial enterprises. They are known as Enterprise Funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the Government-Wide financial statements. The State uses Enterprise Funds to account for the operations of Airports, Harbors, the Unemployment Compensation Fund, and its other business-type activities.

Proprietary Funds provide the same type of information as the Government-Wide financial statements, only in more detail. The Proprietary Funds financial statements provide separate information for Airports, Harbors, and the Unemployment Compensation Fund, each of which are considered to be major funds of the State. Conversely, the other business-type activities are combined into a single, aggregate presentation in the Proprietary Funds financial statements.

The basic Proprietary Funds financial statements can be found on pages 30 – 34 of this report.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the State. Fiduciary Funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

The basic Fiduciary Funds financial statements can be found on page 36 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and fund financial statements. The notes to basic financial statements can be found on pages 43 – 103 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents the combining financial statements referred to earlier in connection with nonmajor Governmental and Fiduciary Funds. These statements are presented immediately following the notes to basic financial statements. The total columns of these combining financial statements carry to the applicable fund financial statements.

Government-Wide Financial Analysis

The following financial analysis focuses on the Primary Government (governmental and business-type activities of the State). Separate financial statements for each of the State's Component Units, including their respective management's discussion and analysis, can be obtained from the Department of Accounting and General Services.

Net assets are a useful indicator of a government's financial position. For the State, total assets exceed liabilities by $5.4 billion as of June 30, 2010, and net assets decreased $1.0 billion, or 16.0%, over the course of this fiscal year's operations. The net assets of the governmental activities decreased by $1.0 billion, or 28.9%, and business-type activities had a decrease of $21.5 million, or .7%. The following table was derived from the Government-Wide statement of net assets.

Summary Schedule of Net Assets

June 30, 2010 and 2009
(Amounts in thousands)

	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	$ 2,676,980	$ 2,802,988	$ 2,042,890	$ 1,699,447	$ 4,719,870	$ 4,502,435
Capital assets, net	8,740,404	8,570,100	2,380,609	2,296,474	11,121,013	10,866,574
Total assets	11,417,384	11,373,088	4,423,499	3,995,921	15,840,883	15,369,009
Liabilities:						
Long-term liabilities	7,331,670	6,351,395	1,373,070	929,645	8,704,740	7,281,040
Other liabilities	1,618,586	1,554,061	164,744	159,065	1,783,330	1,713,126
Total liabilities	8,950,256	7,905,456	1,537,814	1,088,710	10,488,070	8,994,166
Net assets:						
Invested in capital assets, net of related debt	3,118,606	3,298,144	1,469,676	1,527,018	4,588,282	4,825,162
Restricted	655,238	641,031	922,846	782,569	1,578,084	1,423,600
Unrestricted	(1,306,716)	(471,543)	493,163	597,624	(813,553)	126,081
Total net assets	$ 2,467,128	$ 3,467,632	$ 2,885,685	$ 2,907,211	$ 5,352,813	$ 6,374,843

Analysis of Net Assets

By far the largest portion of the State's net assets ($4.6 billion or 85.7%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets ($1.6 billion or 29.5%) represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance of unrestricted net assets (negative $813.6 million or negative 15.2%) may be used to meet the State's ongoing obligations to citizens and creditors.

At June 30, 2010, the State is able to report positive balances in two of the categories of net assets for governmental activities and all three categories for business-type activities. The negative balance of unrestricted net assets for governmental activities is primarily attributed to the State's Capital Projects Fund which reflected a negative unreserved-undesignated fund balance of $1.7 billion.

Changes in Net Assets

The State's net assets decreased by $1.0 billion, or 16.0%, during the fiscal year ended June 30, 2010. Approximately 48.6% of the State's total revenues came from taxes, while 31.6% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 17.8% of the total revenues. The State's expenses cover a range of services. The largest expenses were for higher and lower education, welfare, health, and unemployment compensation.

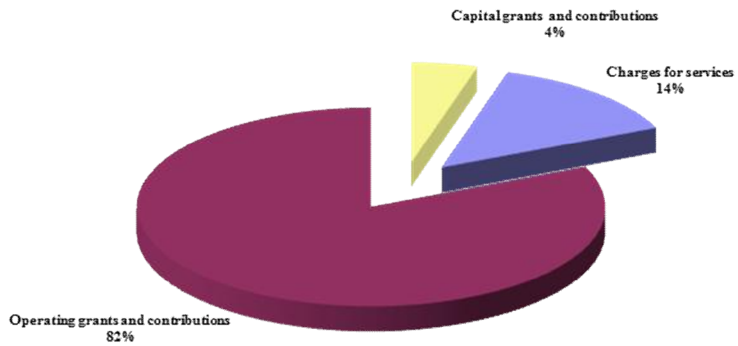
The following financial information was derived from the Government-Wide statement of activities and reflects how the State's net assets changed during the fiscal year (the 2009 line item amounts have not been adjusted for restatements discussed in Note 15).

Summary Schedule of Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009
(Amounts in thousands)

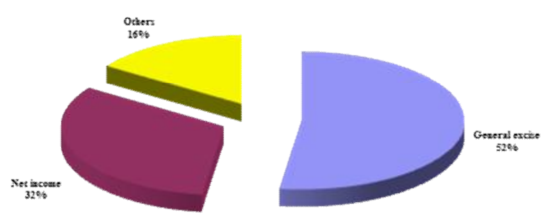
	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 441,471	$ 425,345	$ 1,155,942	$ 545,132	$ 1,597,413	$ 970,477
Operating grants and contributions	2,598,141	2,260,551	-	-	2,598,141	2,260,551
Capital grants and contributions	144,445	145,771	98,099	103,195	242,544	248,966
General revenues:						
Taxes	4,368,686	4,382,817	-	-	4,368,686	4,382,817
Interest and investment income (loss)	124,518	(42,051)	68,950	4,639	193,468	(37,412)
Other	(3,036)	305	-	-	(3,036)	305
Total revenues	7,674,225	7,172,738	1,322,991	652,966	8,997,216	7,825,704
Expenses:						
General government	421,327	564,356	-	-	421,327	564,356
Public safety	538,110	464,897	-	-	538,110	464,897
Highways	466,322	487,391	-	-	466,322	487,391
Conservation of natural resources	81,561	119,705	-	-	81,561	119,705
Health	858,476	843,826	-	-	858,476	843,826
Welfare	2,348,190	2,140,202	-	-	2,348,190	2,140,202
Lower education	2,616,768	2,656,592	-	-	2,616,768	2,656,592
Higher education	700,335	878,126	-	-	700,335	878,126
Other education	14,034	29,935	-	-	14,034	29,935
Culture and recreation	108,247	106,583	-	-	108,247	106,583
Urban redevelopment and housing	101,505	145,710	-	-	101,505	145,710
Economic development and assistance	209,611	158,808	-	-	209,611	158,808
Interest expense	210,243	127,576	-	-	210,243	127,576
Airports	-	-	336,127	347,089	336,127	347,089
Harbors	-	-	68,291	124,611	68,291	124,611
Unemployment compensation	-	-	686,141	437,553	686,141	437,553
Nonmajor proprietary fund	-	-	256,205	38,672	256,205	38,672
Total expenses	8,674,729	8,723,707	1,346,764	947,925	10,021,493	9,671,632
Change in net assets	(1,000,504)	(1,550,969)	(23,773)	(294,959)	(1,024,277)	(1,845,928)
Net assets – beginning of year – as previously reported	3,467,632	5,018,601	2,907,211	3,201,813	6,374,843	8,220,414
Adjustments	-	-	2,247	357	2,247	357
Net assets – beginning of year – as restated	3,467,632	5,018,601	2,909,458	3,202,170	6,377,090	8,220,771
Net assets – end of year	$ 2,467,128	$ 3,467,632	$ 2,885,685	$ 2,907,211	$ 5,352,813	$ 6,374,843

The following charts depict revenues of the governmental activities for the fiscal year:

Program Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2010



Tax Revenues by Source – Governmental Activities
Fiscal Year Ended June 30, 2010



Analysis of Changes in Net Assets

The State's net assets decreased by $1.0 billion during the current fiscal year. This is explained in the governmental and business-type activities discussion below, and is primarily due to decrease in net assets of governmental activities of $1.0 billion with a decrease in net assets of Unemployment Compensation Fund of $193.4 million, offset by increases in net assets of Airports, Harbors and Nonmajor Proprietary Funds of $75.8 million, $18.8 million and $77.4 million, respectively.

Governmental Activities

Governmental activities decreased the State's net assets by $1.0 billion. The elements of this decrease are reflected below:

	Governmental Activities (Amounts in thousands)	
	2010	**2009**
General revenues:		
Taxes	$ 4,368,686	$ 4,382,817
Interest and investment (loss) income and other	121,482	(41,746)
Total general revenues	4,490,168	4,341,071
Expenses, net of program revenues:		
General government	(140,251)	140,192
Public safety	502,629	429,155
Highways	250,122	285,450
Conservation of natural resources	26,944	63,253
Health	559,827	566,068
Welfare	693,873	674,367
Lower education	2,331,537	2,381,591
Higher education	700,335	878,126
Other education	12,829	28,536
Culture and recreation	106,781	105,031
Urban redevelopment and housing	54,066	77,192
Economic development and assistance	181,737	135,503
Interest expense	210,243	127,576
Total governmental activities expenses, net of program revenues	5,490,672	5,892,040
Decrease in governmental activities net assets	$ (1,000,504)	$ (1,550,969)

Tax revenues decreased by $14.1 million, or .3%, from the previous fiscal year. The decrease was primarily due to a decrease in general excise taxes of $131.4 million, offset by increases in individual and corporate incomes taxes of $42.4 million, in public service company taxes of $31.6 million and in tobacco and liquor taxes of $14.2 million.

Interest and investment income increased by $163.2 million from the previous year. This increase is primarily attributed to the increase in the fair market value of investments in the State's investment pool of $103.2 million in fiscal 2010 compared to a decrease in the fair market value of $83.0 million in fiscal 2009.

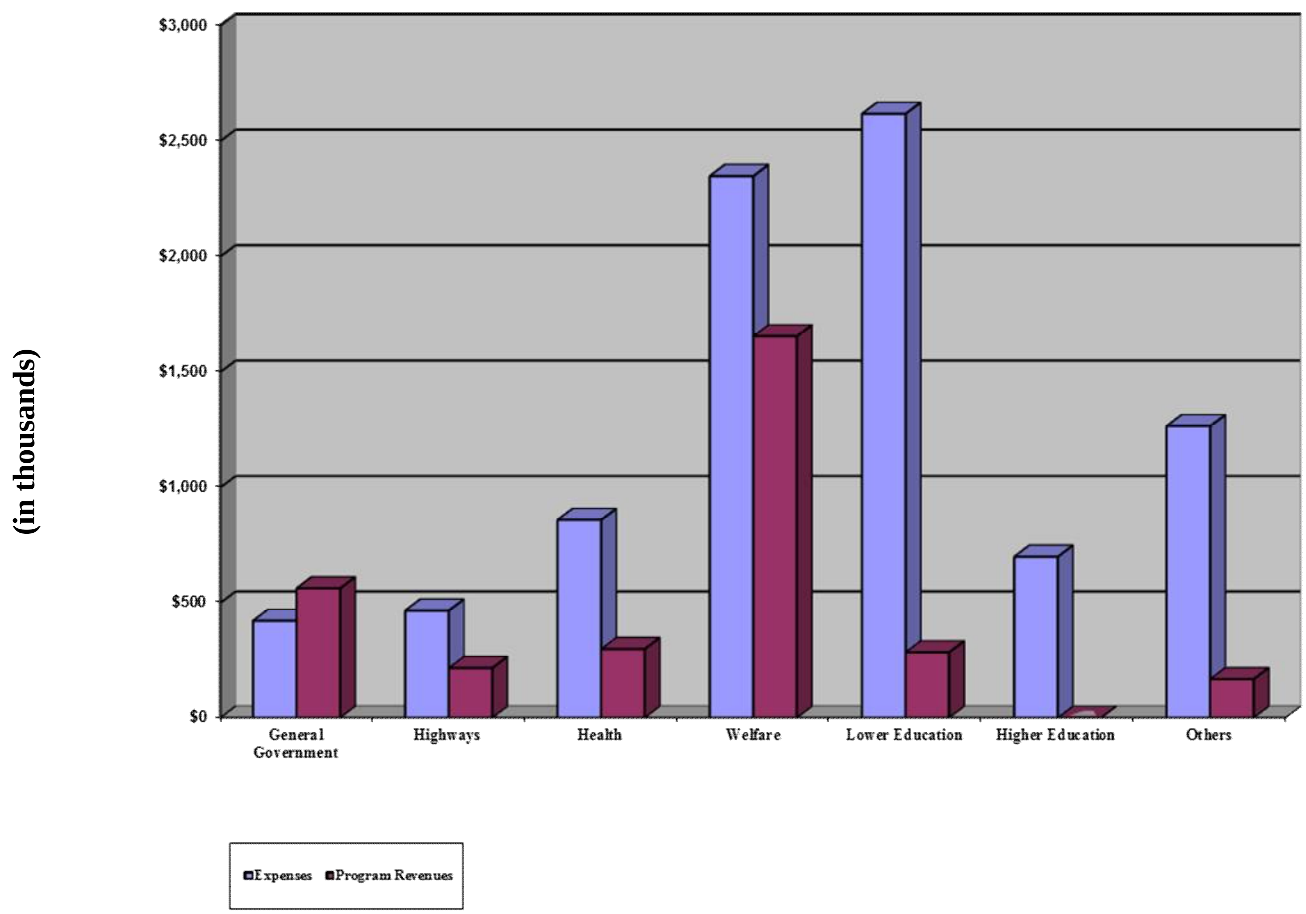
General government net expenses decreased $280.4 million, or 200.0%, from the previous fiscal year due mainly to spending restrictions and debt restructuring and payroll cost savings measures that included furloughs, pay reductions and reductions in force. The decrease was also due to an increase of $112.2 million operational grants revenues from the previous fiscal year which included $49.3 million in federal stimulus fund received for education programs.

Although lower education net expenses decreased only $50.1 million or 2.1% from the previous fiscal year, General Fund expenses decreased $386.4 million, due primarily to employee furloughs and spending restrictions in instructional services and school and student support. Offsetting this decrease were increases in expenses in non-general funds of $256.7 million, primarily due to an increase in federal funds received in fiscal 2010 and additional school facilities repair expenses.

Higher education net expenses decreased by $177.8 million, or 20.3%, from the previous fiscal year due mainly to employee furloughs and spending restrictions at all University of Hawaii campuses.

A comparison of the cost of services by function of the State's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State:

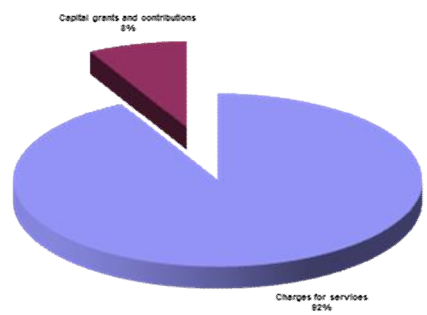
Expenses and Program Revenues – Governmental Activities
Fiscal Year Ended June 30, 2010



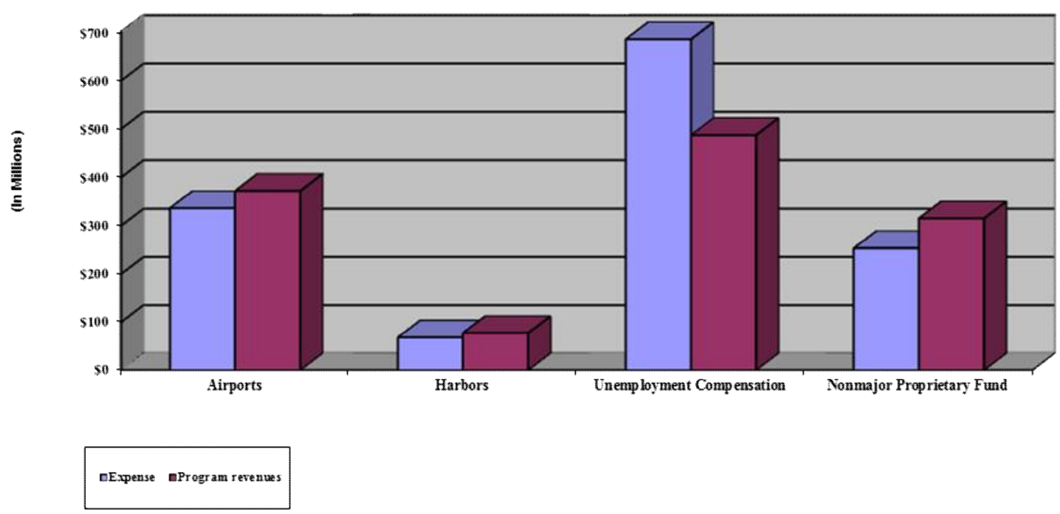
Business-Type Activities

The following charts depict revenues and expenses of the business-type activities for the fiscal year:

Program Revenues by Source – Business-Type Activities
Fiscal Year Ended June 30, 2010



Expenses and Program Revenues – Business-Type Activities
Fiscal Year Ended June 30, 2010



Business-type activities decreased the State's net assets by $21.5 million in fiscal 2010, compared to a decrease of $295.0 million in fiscal 2009. Key elements of this increase are as follows:

- Airport's net assets increased $75.8 million compared to a decrease of $11.2 million in the prior fiscal year. Charges for current services increased by $34.1 million and interest income increased by $47.6 million, primarily due to an increase in fair value of investments in the State's Investment Pool of $31.0 million. Expenses decreased by $11.0 million.

- Harbor's net assets increased $18.8 million in fiscal 2010 compared to a decrease of $26.4 million in fiscal 2009. Expenses decreased by $56.3 million primarily due to an extraordinary loss on impairment of capital assets of $41.4 million in FY09. Interest income increased by $11.3 million, due to an increase in fair value of investments in State's Investment Pool of $9.1 million. Capital contributions and grants decreased by $18.8 million in the current year.

- The Unemployment Compensation Fund's net assets decreased $193.4 million compared to a decrease of $247.9 million in the prior fiscal year. The change was primarily due to an increase in unemployment benefits paid of $248.6 million offset by an increase in unemployment tax revenues of $316.5 million.

- Nonmajor Proprietary Fund's net assets increased $77.4 million in fiscal 2010 compared to a decrease of $9.1 million in fiscal 2009. Subsequent to the issuance of the EUTF 2009 financial statements, management reclassified all activity related to capital assets, operating revenues and expenses and related assets and liabilities previously reported in the agency fund to the Proprietary Fund, see Note 15 to the basic financial statements. The aggregate Nonmajor Proprietary Fund revenues increased by $283.7 million, expenses increased by $217.5 million and interest income increased $18.8 million. Capital contributions for Water Pollution Control Revolving Fund and Drinking Water Treatment Revolving Fund increased by $4.7 million and $17.5 million, respectively.

Key elements of the State's business-type activities for the fiscal years ended June 30, 2010 and 2009 are as follows:

Business-Type Activities
(Amounts in thousands)

	Program Revenues									
	Charges for Services		Operating/Capital Grants and Contributions		Total		Expenses		Program Revenues Net of Expenses	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Airports	$ 324,577	$ 290,464	$ 47,863	$ 56,307	$ 372,440	$ 346,771	$ 336,127	$ 347,089	$ 36,313	$ (318)
Harbors	73,340	74,612	3,865	22,714	77,205	97,326	68,291	124,611	8,914	(27,285)
Unemployment compensation	486,476	169,976	-	-	486,476	169,976	686,141	437,553	(199,665)	(267,577)
Nonmajor proprietary funds	271,549	10,080	46,371	24,174	317,920	34,254	256,205	38,672	61,715	(4,418)
Total	$ 1,155,942	$ 545,132	$ 98,099	$ 103,195	$ 1,254,041	$ 648,327	$ 1,346,764	$ 947,925	$ (92,723)	$ (299,598)

Financial Analysis of the State's Individual Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At of the end of the current fiscal year, the State's Governmental Funds reported combined ending fund balances of $950.7 billion, a decrease of $271.5 million from the prior fiscal year. Unreserved fund balance, normally a positive amount, was a negative $1.6 billion at fiscal year end. This deficit was mainly the result of negative unreserved fund balances of $1.7 billion in the Capital Projects Fund and $210.6 million in the General Fund which were attributed to outstanding encumbrances exceeding the cash available in the fund. Encumbrances can be incurred as long as there is sufficient appropriation or authorization balances. The unreserved fund balance excluding the Capital Projects Fund and General Fund was $293.6 million, which represents the amount available for spending at the State's discretion in the coming fiscal year. The remainder of the fund balance is reserved to indicate that it is not available for spending because it has been already been committed (1) to liquidate contracts and purchase orders of the prior period or are legally segregated for a specific future use ($2.2 billion), (2) for notes and loans receivable, advances, and investments ($78.4 million), or (3) for federal aid highway projects encumbrances ($233.6 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was a negative $210.6 million, a decrease of $123.0 million from the prior fiscal year.

The fund balance of the State's General Fund decreased by $152.1 million during the current fiscal year, which was primarily due to an increase in net transfers out of $119.6 million. This increase is primarily due a reduction in the amount of excess and unrequired cash balances that was transferred into the general fund from special revenue funds compared to the prior fiscal year. The fund balance of the State's Capital Projects fund decreased by $147.3 million during the current fiscal year. The State issued $94.0 million less general obligation bonds than in fiscal year 2009, which was the primary reason for the decrease. The fund balance of the Med-Quest Special Fund and other Nonmajor Governmental Funds increased $16.9 million and $11.0 million, respectively.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the Government-Wide financial statements, but in more detail. At the end of the current fiscal year, Airports had an increase in net assets of $75.8 million, Harbors had an increase in net assets of $18.8 million, the Unemployment Compensation Fund had a decrease in net assets of $193.4 million, and the Nonmajor Proprietary Funds had an increase in net assets of $77.4 million. Other factors concerning the finances of Airports, Harbors, the Unemployment Compensation Fund, and the Nonmajor Proprietary Funds have already been addressed in the discussion of the State's business-type activities.

General Fund Budgetary Highlights

The General Fund revenues were $215.5 million, or 4.7%, more than the final budget. The increase was primarily attributed to higher corporate and individual net income taxes of $271.9 million, public service companies taxes of $33.1 million, and revenues from private sources services of $13.6 million, offset by lower general excise taxes of $34.4 million, tobacco taxes of $8.8 million, transient accommodation tax of $6.5 million, interest and investment income of $20.7 million, and charges for current services of $29.7 million.

The difference between the final budget and actual expenditures on a budgetary basis was $503.2 million. This large positive variance was the result of employee furloughs, spending restrictions on executive branch departments and debt restructuring. The positive variance in general government is mostly due to savings from debt service restructuring of $101.3 million and $75.2 million for health premium and retirement benefits not incurred because of the employee furloughs. The positive variance in general government was also due to $15.6 million of appropriations made to the State Legislature that was carried over to the next fiscal year. Positive variances in public safety and health resulted from employee furloughs and spending restrictions, in the correctional facilities and health programs. Restriction of various welfare program expenditures, including $12.3 million for the Federal disproportionate share hospital allowance, and employee furloughs contributed to the positive welfare variance. As in previous fiscal years, the positive variance in lower education resulted when the Department of Education carried over $20.2 million of unencumbered appropriations into the next fiscal year. The Department of Education is allowed by statute to carry over up to 5% of its unencumbered appropriations. Adding to the positive variance was $127.7 million realized from employee furloughs. The positive variance for higher education resulted primarily from employee furloughs.

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounted to $11.1 billion (net of accumulated depreciation of $8.4 billion), an increase of $254.4 million from fiscal 2009. The increase is primarily due to $684.7 million of additions to construction in progress in fiscal 2010. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. Major capital improvement projects, which received funding in the fiscal year ended June 30, 2010, included the following:

- $133.8 million for various projects including concourse, support and maintenance facilities at the Honolulu International Airport.
- $86.3 million for various capital improvement projects at airports, statewide.
- $83.8 million for various highway projects throughout the State.
- $39.7 million for additions and renovations for the Campus Center Complex at the University of Hawaii.
- $34.8 million for the Cancer Research Center at the University of Hawaii.
- $260.2 million for various construction, maintenance and renovation projects at all University of Hawaii campuses.
- $142.8 million for various capital improvement projects and for repairs and maintenance of public school facilities throughout the State.
- $43.2 million for various construction, maintenance and renovation projects at state community hospitals.
- $25.2 million for various renovation and improvement projects at public housing facilities.

Additional information on the State's capital assets can be found in Note 3 of the notes to the basic financial statements.

Debt Administration

At the end of the current fiscal year, the State had total bonded debt outstanding of $6.9 billion. Of this amount, $5.2 billion comprises debt backed by the full faith and credit of the State and $1.7 billion (i.e., revenue bonds), is revenue bonded debt that is payable from and secured solely by the specified revenue sources. A breakdown of the State's total bonded debt is shown below:

Long-Term Debt
June 30, 2010 and 2009
(Amounts in thousands)

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
General obligation bonds	$ 5,157,198	$ 4,779,666	$ 37,362	$ 38,329	$ 5,194,560	$ 4,817,995
Revenue bonds	400,215	420,605	1,285,792	861,423	1,686,007	1,282,028
Total	$ 5,557,413	$ 5,200,271	$ 1,323,154	$ 899,752	$ 6,880,567	$ 6,100,023

The State's total long-term debt increased by $780.5 million, or 12.8%, during the current fiscal year. The key factor for this increase was the issuance of $532 million of general obligation bonds for financing the Hawaiian Home Lands Trust settlement, public improvement projects (see Note 4 to the basic financial statements).

As of June 30, 2010, the State's underlying general obligation bond ratings were Moody's Investors Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA) based on the credit of the State.

The State Constitution limits the amount of general obligation bonds that may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit. The legal debt margin at June 30, 2010 was $320.8 million.

Additional information on the State's long-term debt can be found in notes 4, 5 and 6 to the basic financial statements.

Other Post-Employment Benefits (OPEB)

The State implemented provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for fiscal year ended June 30, 2008.

The latest actuarial valuation studies were completed as of July 1, 2009 for the Employer-Union Health Benefits Trust Fund (EUTF), Hawaii Voluntary Employee's Beneficiary Association Trust (VEBA), and the

University of Hawaii. These studies determined the State's combined unfunded actuarial accrued liability to be approximately $14.0 billion. The State's combined annual OPEB cost for fiscal 2010 was $1.0 billion and its OPEB contributions were $242.2 million, resulting in an increase in the net OPEB obligation of $769.3 million. The total net OPEB obligation balance at fiscal year end increased to $1.7 billion. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term while it analyzes alternative strategies that could be implemented to manage the high cost of providing retiree health benefits.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for June 2011 was 6.0%. One year ago, the State's seasonally adjusted unemployment rate stood at 6.3% while the seasonally adjusted national unemployment rate was 9.2%.

The Council of Revenues in September 2010 estimated the State's General Fund tax revenue growth rate for fiscal 2011 and 2012 to be 2.0% and 10.0% respectively. A special meeting was held on March 29, 2011 to determine the revenue impact of Japan's seismic event, reduced federal "earmarked" expenditure and the global petroleum movements. The Council's revised forecast for fiscal 2011 was -1.6% in fiscal 2011's, and 11.0% in fiscal 2012.

Cumulative tax collections for fiscal 2011 was $5.3 billion or $161.4 million more than fiscal 2010. This increase was net of an estimated $184 million of individual income tax refunds that were delayed and paid in fiscal 2011. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 7.7%.

Because of a lower estimated revenue growth rate in fiscal year 2011, cost saving measures such as employee furloughs and pay reductions implemented in the prior year remained in effect. The Governor also implemented spending restrictions on general funded programs in the Executive Branch and released funding on a quarter to quarter basis to enable additional spending restrictions to be implemented should revenues decline during the fiscal year. Other expenditure controls implemented included requiring Governor's approval to fill vacant positions and for equipment purchases over $10,000.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Department of Accounting and General Services, P.O. Box 119, Honolulu, Hawaii 96810-0119. General information about the State can be found at the State's website, http://www.hawaii.gov.

BASIC FINANCIAL STATEMENTS

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Primary Government			
ASSETS	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
CASH AND CASH EQUIVALENTS	$ 814,062	$ 686,824	$ 1,500,886	$ 378,526
RECEIVABLES:				
Taxes	123,459	64,573	188,032	-
Accounts and accrued interest — net	7,161	31,118	38,279	180,665
Notes, loans, mortgages, and contributions — net	79,745	-	79,745	24,665
Federal government	226,880	14,828	241,708	5,475
Premium	-	23,057	23,057	-
Other — net	53,099	16,263	69,362	23,424
Total receivables	490,344	149,839	640,183	234,229
DUE FROM COMPONENT UNITS	355,407	-	355,407	-
DUE FROM PRIMARY GOVERNMENT	-	-	-	453,710
INVENTORIES:				
Developments in progress and dwelling units	-	-	-	23,237
Materials and supplies	-	473	473	30,278
Total inventories	-	473	473	53,515
RESTRICTED ASSETS	-	804,804	804,804	369,607
INVESTMENTS	909,154	-	909,154	961,400
OTHER ASSETS:				
Prepaid expenses	4,703	204	4,907	11,503
Bond issue and deferred costs — net	103,310	7,611	110,921	1,756
Note receivable	-	392,445	392,445	318,938
Other	-	690	690	32,518
Total other assets	108,013	400,950	508,963	364,715
CAPITAL ASSETS:				
Land and land improvements	2,128,686	585,015	2,713,701	448,663
Infrastructure	8,654,609	-	8,654,609	138,374
Construction in progress	689,729	252,298	942,027	234,269
Buildings, improvements, and equipment	3,851,817	3,353,395	7,205,212	3,400,556
Accumulated depreciation	(6,584,437)	(1,810,099)	(8,394,536)	(1,753,189)
Total capital assets — net	8,740,404	2,380,609	11,121,013	2,468,673
TOTAL	$ 11,417,384	$ 4,423,499	$ 15,840,883	$ 5,284,375

(Continued)

STATE OF HAWAII

STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
LIABILITIES:				
Vouchers and contracts payable	$ 442,384	$ 44,340	$ 486,724	$ 139,940
Other accrued liabilities	374,182	101,242	475,424	152,526
Prepaid airport use charge fund	-	2,553	2,553	-
Due to Component Units	453,710	-	453,710	-
Due to Primary Government	-	-	-	355,407
Due to federal government	-	-	-	16
Deferred revenue	-	6,328	6,328	-
Estimated future costs of land sold	-	-	-	35,482
Unamortized bond premium	264,131	-	264,131	-
Premiums payable	-	10,281	10,281	-
Other	84,179	-	84,179	30,227
Long-term liabilities:				
Due within one year:				
Payable from restricted assets —				
Revenue bonds payable — net	-	36,156	36,156	-
General obligation bonds payable	169,654	1,141	170,795	-
Notes, mortgages, and installment contracts payable	-	-	-	13,948
Accrued vacation and retirement benefits payable	64,930	3,108	68,038	40,008
Revenue bonds payable — net	21,590	-	21,590	14,782
Reserve for losses and loss adjustment costs	37,544	1,176	38,720	7,272
Capital lease obligations	1,495	-	1,495	9,509
Deferred commitment fees	-	-	-	249
Due in more than one year:				
General obligation bonds payable	4,987,544	36,221	5,023,765	-
Notes, mortgages, and installment contracts payable	-	-	-	32,242
Accrued vacation and retirement benefits payable	147,173	8,107	155,280	64,373
Revenue bonds payable — net	378,625	1,249,636	1,628,261	805,159
Reserve for losses and loss adjustment costs	114,168	3,495	117,663	20,205
Capital lease obligations	62,890	-	62,890	24,871
Premium bonds payable	-	-	-	1,630
Other postemployment benefit liability	1,345,675	25,274	1,370,949	312,235
Other	382	8,756	9,138	70,011
TOTAL LIABILITIES	8,950,256	1,537,814	10,488,070	2,130,092
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	3,118,606	1,469,676	4,588,282	1,782,766
RESTRICTED FOR:				
Health and welfare	223,856	-	223,856	-
Natural resources	98,558	-	98,558	-
Hawaiian programs	163,889	-	163,889	-
Budget stabilization	62,493	-	62,493	-
Other purposes	106,324	-	106,324	-
Bond requirements and other	118	922,846	922,964	1,065,407
UNRESTRICTED	(1,306,716)	493,163	(813,553)	306,110
TOTAL NET ASSETS	$ 2,467,128	$ 2,885,685	$ 5,352,813	$ 3,154,283

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	$ 421,327	$ 231,629	$ 329,949	$ -	$ 140,251	$ -	$ 140,251	
Public safety	538,110	30,656	4,825	-	(502,629)	-	(502,629)	
Highways	466,322	5,942	65,813	144,445	(250,122)	-	(250,122)	
Conservation of natural resources	81,561	28,654	25,963	-	(26,944)	-	(26,944)	
Health	858,476	98,547	200,102	-	(559,827)	-	(559,827)	
Welfare	2,348,190	746	1,653,571	-	(693,873)	-	(693,873)	
Lower education	2,616,768	35,091	250,140	-	(2,331,537)	-	(2,331,537)	
Higher education	700,335	-	-	-	(700,335)	-	(700,335)	
Other education	14,034	847	358	-	(12,829)	-	(12,829)	
Culture and recreation	108,247	-	1,466	-	(106,781)	-	(106,781)	
Urban redevelopment and housing	101,505	3,863	43,576	-	(54,066)	-	(54,066)	
Economic development and assistance	209,611	5,496	22,378	-	(181,737)	-	(181,737)	
Interest expense	210,243	-	-	-	(210,243)	-	(210,243)	
Total governmental activities	8,674,729	441,471	2,598,141	144,445	(5,490,672)		(5,490,672)	
Business-Type Activities:								
Airports	336,127	324,577	-	47,863	-	36,313	36,313	
Harbors	68,291	73,340	-	3,865	-	8,914	8,914	
Unemployment compensation	686,141	486,476	-	-	-	(199,665)	(199,665)	
Nonmajor proprietary funds	256,205	271,549	-	46,371	-	61,715	61,715	
Total business-type activities	1,346,764	1,155,942		98,099		(92,723)	(92,723)	
TOTAL PRIMARY GOVERNMENT	10,021,493	1,597,413	2,598,141	242,544	(5,490,672)	(92,723)	(5,583,395)	
COMPONENT UNITS:								
University of Hawaii	1,443,894	339,840	474,347	-				(629,707)
Hawaii Housing Finance and Development Corporation	60,326	38,665	32,327	-				10,666
Hawaii Public Housing Authority	141,260	21,990	70,143	17,496				(31,631)
Hawaii Health Systems Corporation	572,310	471,177	3,228	37,945				(59,960)
Hawaii Tourism Authority	157,448	8,650	-	-				(148,798)
Hawaii Community Development Authority	7,920	4,566	-	-				(3,354)
Hawaii Hurricane Relief Fund	4	-	-	-				(4)
Total component units	2,383,162	884,888	580,045	55,441				(862,788)
GENERAL REVENUES:								
Taxes:								
General excise tax					2,279,310	-	2,279,310	-
Net income tax — corporations and individuals					1,408,965	-	1,408,965	-
Public service companies tax					157,661	-	157,661	-
Transient accommodations tax					32,635	-	32,635	-
Tobacco and liquor taxes					149,596	-	149,596	-
Liquid fuel tax					82,780	-	82,780	-
Tax on premiums of insurance companies					105,848	-	105,848	-
Vehicle weight and registration tax					58,659	-	58,659	-
Rental motor/tour vehicle surcharge tax					40,401	-	40,401	-
Franchise tax					20,666	-	20,666	-
Other tax					32,165	-	32,165	-
Interest and investment income					124,518	68,950	193,468	48,518
Payments from the State — net					-	-	-	993,752
Other income (expense)					(3,036)	-	(3,036)	12,268
Total general revenues					4,490,168	68,950	4,559,118	1,054,538
CHANGE IN NET ASSETS					(1,000,504)	(23,773)	(1,024,277)	191,750
NET ASSETS — Beginning of year — as previously reported					3,467,632	2,907,211	6,374,843	2,962,030
ADJUSTMENTS (Note 15)					-	2,247	2,247	503
NET ASSETS — Beginning of year — as restated					3,467,632	2,909,458	6,377,090	2,962,533
NET ASSETS — End of year					$ 2,467,128	$ 2,885,685	$ 5,352,813	$ 3,154,283

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
CASH AND CASH EQUIVALENTS	$ 134,232	$ 88,245	$ 24,598	$ 566,987	$ 814,062
RECEIVABLES:					
Taxes	123,459	-	-	-	123,459
Accrued interest	-	-	-	7,161	7,161
Notes and loans — net	3,281	-	-	76,464	79,745
Federal government	-	-	161,920	64,960	226,880
Other	2,274	-	-	26,417	28,691
DUE FROM OTHER FUNDS	149,467	-	12,600	118	162,185
DUE FROM COMPONENT UNITS	34,916	-	-	-	34,916
INVESTMENTS	80,448	379,678	-	449,028	909,154
TOTAL	$ 528,077	$ 467,923	$ 199,118	$ 1,191,135	$ 2,386,253
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Vouchers and contracts payable	$ 112,010	$ 56,553	$ 176,102	$ 97,719	$ 442,384
Other accrued liabilities	342,001	3,216	-	28,965	374,182
Due to other funds	12,718	89,900	-	59,567	162,185
Due to Component Units	10,182	428,034	-	-	438,216
Deferred revenue	18,232	-	-	-	18,232
Payable from restricted assets — matured bonds and interest payable	-	-	-	382	382
Total liabilities	495,143	577,703	176,102	186,633	1,435,581
FUND BALANCES:					
Reserved for:					
Continuing appropriations	240,204	1,308,454	79,052	579,758	2,207,468
Receivables and advances	3,281	-	-	75,083	78,364
Federal aid highway projects encumbrances	-	233,621	-	-	233,621
Unreserved for major funds:					
Designated for future expenditures	-	-	-	-	-
Undesignated	(210,551)	(1,651,855)	-	-	(1,862,406)
Unreserved for nonmajor Special Revenue Funds:					
Designated for future expenditures	-	-	-	103,024	103,024
Undesignated	-	-	(56,036)	246,637	190,601
Total fund balances	32,934	(109,780)	23,016	1,004,502	950,672
TOTAL	$ 528,077	$ 467,923	$ 199,118	$ 1,191,135	$ 2,386,253

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

TOTAL FUND BALANCE — Governmental Funds	$ 950,672
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Land and land improvements	2,128,686
Infrastructure	8,654,609
Construction in progress	689,729
Buildings, improvements, and equipment	3,851,817
Accumulated depreciation	(6,584,437)
	8,740,404
Accrued interest and other payables are not recognized in Governmental Funds	(348,310)
Other assets are not available to pay for current-period expenditures and are deferred, or not recognized, in Governmental Funds, such as deferred revenue and settlement receivables	152,584
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds payable	(5,157,198)
Accrued vacation payable	(212,103)
Revenue bonds payable	(400,215)
Reserve for losses and loss adjustment costs	(151,712)
Other postemployment benefit liability	(1,345,675)
Long-term transactions with component units	303,066
Capital lease obligations	(64,385)
	(7,028,222)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 2,467,128

See accompanying notes to basic financial statements.

STATE OF HAWAII

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	General Fund	Capital Projects Fund	Med-Quest Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
General excise tax	$ 2,279,310	$ -	$ -	$ -	$ 2,279,310
Net income tax — corporations and individuals	1,408,965	-	-	-	1,408,965
Public service companies tax	157,661	-	-	-	157,661
Transient accommodations tax	31,635	-	-	1,000	32,635
Tobacco and liquor taxes	129,576	-	-	20,020	149,596
Liquid fuel tax	-	-	-	82,780	82,780
Tax on premiums of insurance companies	104,667	-	-	1,181	105,848
Vehicle weight and registration tax	-	-	-	58,659	58,659
Rental motor/tour vehicle surcharge tax	-	-	-	40,401	40,401
Franchise tax	18,666	-	-	2,000	20,666
Other	17,918	-	-	14,247	32,165
Total taxes	4,148,398	-	-	220,288	4,368,686
Interest and investment income	61,251	-	-	63,267	124,518
Charges for current services	111,089	-	-	253,804	364,893
Intergovernmental	5,852	-	957,081	1,469,436	2,432,369
Rentals	392	-	-	19,320	19,712
Fines, forfeitures, and penalties	23,304	-	-	12,678	35,982
Licenses and fees	1,430	-	-	35,211	36,641
Revenues from private sources	15,195	-	-	42,655	57,850
Other	69,888	-	16,742	95,737	182,367
Total revenues	4,436,799	-	973,823	2,212,396	7,623,018
EXPENDITURES:					
Current:					
General government	344,110	16,442	-	75,738	436,290
Public safety	294,576	14,179	-	148,303	457,058
Highways	-	197,250	-	245,721	442,971
Conservation of natural resources	35,390	5,114	-	48,369	88,873
Health	503,625	53,920	-	244,378	801,923
Welfare	712,900	1,937	966,029	634,860	2,315,726
Lower education	1,720,097	235,362	-	369,607	2,325,066
Higher education	525,446	174,889	-	-	700,335
Other education	5,095	-	-	8,938	14,033
Culture and recreation	35,884	40,774	-	31,878	108,536
Urban redevelopment and housing	20,386	515	-	94,895	115,796
Economic development and assistance	28,269	34,145	-	103,906	166,320
Housing	114	24,039	-	-	24,153
Other	-	-	-	4,460	4,460
Debt service	-	-	-	428,175	428,175
Total expenditures	4,225,892	798,566	966,029	2,439,228	8,429,715
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	210,907	(798,566)	7,794	(226,832)	(806,697)
OTHER FINANCING SOURCES (USES):					
Issuance of general obligation and refunding general obligation bonds — par	-	532,000	-	515,305	1,047,305
Issuance of general obligation and refunding general obligation bonds — premium	3,187	-	-	55,993	59,180
Issuance of certificate of participation	43,997	-	-	-	43,997
Payment to refunded bond escrow agent	(48,411)	-	-	(571,297)	(619,708)
Other financing sources — other	4,415	-	-	-	4,415
Transfers in	16,586	149,858	14,165	541,201	721,810
Transfers out	(382,767)	(30,575)	(5,051)	(303,417)	(721,810)
Total other financing (uses) sources	(362,993)	651,283	9,114	237,785	535,189
NET CHANGE IN FUND BALANCES	(152,086)	(147,283)	16,908	10,953	(271,508)
FUND BALANCES — Beginning of year	185,020	37,503	6,108	993,549	1,222,180
FUND BALANCES — End of year	$ 32,934	$ (109,780)	$ 23,016	$ 1,004,502	$ 950,672

See accompanying notes to basic financial statements.

STATE OF HAWAII

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2010 (Amounts in thousands)

TOTAL NET CHANGE IN FUND BALANCES — Governmental Funds	$ (271,508)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in Governmental Funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay — net of disposals	534,829
Depreciation expense	(358,275)
Excess of capital outlay over depreciation expense	176,554
Bond proceeds provide current financial resources to Governmental Funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, this is the amount of proceeds received from general obligation bond and revenue bonds issued.	(1,106,485)
Repayment of long-term debt is reported as an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	750,921
Capital lease payments	1,235
Total long-term debt repayment	752,156
Revenue timing differences result in greater revenue in the Government-Wide financial statements.	51,546
Bond issue and deferred costs reflected as other financing uses in Governmental Funds and reported in the statement of net assets — net of amortization.	26,581
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds:	
Change in postemployment liability	(628,927)
Change in accrued vacation payable	(867)
Change in HHFDC long-term liability	1,397
Change in reserve for losses and loss adjustment costs	(951)
	(629,348)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (1,000,504)

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 445,759	$ 82,808	$ 33,724	$ 124,533	$ 686,824
Restricted assets — cash and short-term investments	518,455	17,174	-	-	535,629
Receivables:					
Taxes	-	-	64,573	-	64,573
Accounts and accrued interest (net of allowance for doubtful accounts of $13,047)	20,780	7,697	-	2,641	31,118
Promissory note receivable (net of allowance for doubtful accounts of $10,277)	13	-	-	29,344	29,357
Federal government	14,363	465	-	-	14,828
Restricted assets — passenger facility charges	3,670	-	-	-	3,670
Other	1,543	294	-	14,426	16,263
Premiums	-	-	-	23,057	23,057
Restricted assets — investments — repurchase agreements and certificates of deposit	96,893	-	-	-	96,893
Materials and supplies inventory	227	246	-	-	473
Prepaid expenses and other assets	-	23	-	181	204
Total current assets	1,101,703	108,707	98,297	194,182	1,502,889
NONCURRENT ASSETS:					
Capital assets:					
Land and land improvements	334,920	250,095	-	-	585,015
Construction in progress	229,547	22,751	-	-	252,298
Buildings and improvements	2,489,881	615,921	-	-	3,105,802
Equipment	216,834	16,026	-	14,733	247,593
	3,271,182	904,793	-	14,733	4,190,708
Less accumulated depreciation	(1,577,249)	(226,978)	-	(5,872)	(1,810,099)
Net capital assets	1,693,933	677,815	-	8,861	2,380,609
Bond issue costs — net	4,907	2,704	-	-	7,611
Promissory note receivable	99	-	-	362,989	363,088
Restricted assets — net direct financing leases	33,749	-	-	-	33,749
Restricted assets — other, cash, and investments	-	134,863	-	-	134,863
Other	-	690	-	-	690
Total noncurrent assets	1,732,688	816,072	-	371,850	2,920,610
TOTAL	$ 2,834,391	$ 924,779	$ 98,297	$ 566,032	$ 4,423,499

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers and contracts payable	$ 33,174	$ 9,521	$ 1,275	$ 370	$ 44,340
Payable from restricted assets — contracts payable, accrued interest, and other	38,387	14,068	-	-	52,455
Other accrued liabilities	9,478	-	-	975	10,453
Benefit claims payable	-	-	-	38,334	38,334
Prepaid airport use charge fund	2,553	-	-	-	2,553
Deferred revenue	6,328	-	-	-	6,328
General obligation bonds payable, current portion	-	1,141	-	-	1,141
Reserve for losses and loss adjustment costs	1,010	166	-	-	1,176
Accrued vacation, current portion	2,555	517	-	36	3,108
Payable from restricted assets — revenue bonds payable	25,300	10,856	-	-	36,156
Premiums payable	-	-	-	10,281	10,281
Total current liabilities	118,785	36,269	1,275	49,996	206,325
NONCURRENT LIABILITIES:					
General obligation bonds payable	-	36,221	-	-	36,221
Accrued vacation	5,978	1,737	-	392	8,107
Revenue bonds payable (net of unamortized bond premium, bond discount, and loss on refunding)	1,031,342	218,294	-	-	1,249,636
Reserve for losses and loss adjustment costs	2,990	505	-	-	3,495
Other postemployment benefit liability	19,506	4,719	-	1,049	25,274
Other	8,756	-	-	-	8,756
Total long-term liabilities	1,068,572	261,476	-	1,441	1,331,489
TOTAL LIABILITIES	1,187,357	297,745	1,275	51,437	1,537,814
NET ASSETS					
INVESTED IN CAPITAL ASSETS — Net of related debt	952,768	508,047	-	8,861	1,469,676
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	333,248	70,280	-	519,318	922,846
UNRESTRICTED	361,018	48,707	97,022	(13,584)	493,163
TOTAL NET ASSETS	$ 1,647,034	$ 627,034	$ 97,022	$ 514,595	$ 2,885,685

See accompanying notes to basic financial statements. (Concluded)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
OPERATING REVENUES:					
Concession fees	$ 127,542	$ -	$ -	$ -	$ 127,542
Unemployment compensation tax	-	-	486,476	-	486,476
Aviation fuel tax	3,633	-	-	-	3,633
Airport use charges	55,948	-	-	-	55,948
Rentals	91,844	23,859	-	-	115,703
Services and others	763	47,951	-	-	48,714
Administrative fees	-	-	-	8,973	8,973
Premium revenue - self insurance	-	-	-	253,295	253,295
Other	5,001	1,530	-	7,083	13,614
Total operating revenues	284,731	73,340	486,476	269,351	1,113,898
OPERATING EXPENSES:					
Personnel services	123,856	14,926	-	1,669	140,451
Depreciation	92,861	16,068	-	983	109,912
Repairs and maintenance	27,276	3,493	-	32	30,801
Airports operations	44,223	-	-	-	44,223
Harbors operations	-	12,805	-	-	12,805
Fireboat operations	-	2,174	-	-	2,174
General administration	17,290	5,726	-	5,134	28,150
Unemployment compensation	-	-	686,141	-	686,141
Claims	-	-	-	248,281	248,281
Other	273	-	-	106	379
Total operating expenses	305,779	55,192	686,141	256,205	1,303,317
Operating (loss) income	(21,048)	18,148	(199,665)	13,146	(189,419)
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	39,445	9,868	6,218	13,419	68,950
Interest expense	(29,959)	(12,994)	-	-	(42,953)
Federal grants	4,117	-	-	-	4,117
Loss on disposal of capital assets	(389)	(105)	-	-	(494)
Passenger facility charges	29,322	-	-	-	29,322
Other	10,524	-	-	2,198	12,722
Total nonoperating revenues (expenses)	53,060	(3,231)	6,218	15,617	71,664
LOSS BEFORE CAPITAL CONTRIBUTIONS	32,012	14,917	(193,447)	28,763	(117,755)
CAPITAL CONTRIBUTIONS	43,746	3,865	-	46,371	93,982
CHANGE IN NET ASSETS	75,758	18,782	(193,447)	75,134	(23,773)
NET ASSETS — Beginning of year — as previously reported	1,571,276	608,252	290,469	437,214	2,907,211
ADJUSTMENTS (NOTE 15)	-	-	-	2,247	2,247
NET ASSETS — Beginning of year — as restated	1,571,276	608,252	290,469	439,461	2,909,458
NET ASSETS — End of year	$ 1,647,034	$ 627,034	$ 97,022	$ 514,595	$ 2,885,685

See accompanying notes to basic financial statements.

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 302,372	$ 73,337	$ -	$ -	$ 375,709
Cash received from taxes	-	-	98,725	-	98,725
Cash received from employer and employees for premiums and benefits	-	-	-	253,145	253,145
Cash paid to suppliers	(144,648)	(23,832)	-	(3,662)	(172,142)
Cash paid to employees	(62,875)	(13,438)	-	(3,235)	(79,548)
Cash paid for unemployment compensation	-	-	(688,385)	-	(688,385)
Cash paid to other State agencies for services rendered	-	-	-	(41)	(41)
Cash paid for premiums and benefits payable	-	-	-	(250,924)	(250,924)
Reserves returned by insurance carriers	-	-	-	854	854
Interest income from notes receivable	-	-	-	3,477	3,477
Administrative loan fees	-	-	-	3,707	3,707
Principal repayments on notes receivable	-	-	-	25,746	25,746
Disbursement of note receivable proceeds	-	-	-	(84,907)	(84,907)
Other cash receipts	-	-	335,733	-	335,733
Net cash provided by (used in) operating activities	94,849	36,067	(253,927)	(55,840)	(178,851)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Net advances to other funds	-	-	-	2,200	2,200
State capital contributions	-	-	-	2,675	2,675
Proceeds from federal operating grants	3,372	-	-	43,636	47,008
Disbursements of federal operating grants	-	-	-	(23,693)	(23,693)
Net cash provided by noncapital financing activities	3,372	-	-	24,818	28,190
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(126,224)	(14,559)	-	(3,018)	(143,801)
Repayment of general obligation and revenue bonds principal	(22,310)	(11,407)	-	-	(33,717)
Payments to refund airports system revenue bonds	(201,788)	-	-	-	(201,788)
Proceeds from issuance of refunding airport system revenue bonds	659,710	-	-	-	659,710
Bond issuance costs paid	(3,573)	-	-	-	(3,573)
Interest paid on bonds	(37,325)	(14,634)	-	-	(51,959)
Proceeds from passenger facility charges program	28,524	-	-	-	28,524
Proceeds from rental car customer facility charges	8,452	-	-	-	8,452
Payments from passenger facility charges program	(14,505)	-	-	-	(14,505)
Proceeds from federal, state, and capital grants	40,379	461	-	-	40,840
Net cash provided by (used in) capital and related financing activities	331,340	(40,139)	-	(3,018)	288,183
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	(112,725)	-	-	-	(112,725)
Proceeds from sales and maturities of investments	91,084	-	-	-	91,084
Interest from and change in fair value of investments	37,814	11,512	6,217	13,542	69,085
Net cash provided by investing activities	16,173	11,512	6,217	13,542	47,444
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	445,734	7,440	(247,710)	(20,498)	184,966
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — beginning of the year - as previously reported	518,480	227,405	281,434	145,031	1,172,350
CASH AND SHORT-TERM INVESTMENTS — Including restricted amounts — end of year	$ 964,214	$ 234,845	$ 33,724	$ 124,533	$ 1,357,316

(Continued)

STATE OF HAWAII

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Airports	Harbors	Unemployment Compensation	Nonmajor Proprietary Funds	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ (21,048)	$ 18,148	$ (199,665)	$ 13,146	$ (189,419)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Provision for uncollectible accounts	-	1,849	-	-	1,849
Depreciation	92,861	16,068	-	983	109,912
Bad debt expense	2,066	-	-	-	2,066
Overpayment of airport use charge to be transferred to the prepaid airport use charge fund	10,303	-	-	-	10,303
Premium reserves held by insurance companies	-	-	-	854	854
Decrease (increase) in assets:					
Receivables	4,223	(1,745)	(52,018)	(62,286)	(111,826)
Inventory of materials and supplies	8	(5)	-	-	3
Deposits	-	-	-	(2,201)	(2,201)
Prepaid expenses	-	(690)	-	(148)	(838)
Increase (decrease) in liabilities:					
Vouchers and contracts payable	(1,925)	(8)	(2,244)	(240)	(4,417)
Other accrued liabilities	7,299	2,450	-	1,711	11,460
Prepaid airport use charge fund	(411)	-	-	-	(411)
Deferred revenue	1,473	-	-	-	1,473
Accrued interest on loans receivable	-	-	-	(7,659)	(7,659)
Net cash provided by (used in) operating activities	$ 94,849	$ 36,067	$ (253,927)	$ (55,840)	$ (178,851)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Amortization of bond discount, bond issue costs, bond premium, and deferred loss on refunding	$ 708	$ (272)	$ -	$ -	$ 436
Principal payments relating to special facility revenue bonds	1,230	-	-	-	1,230
Interest payments relating to special facility revenue bonds	2,168	-	-	-	2,168
Development capital assets from other sources	-	3,865	-	-	3,865

See accompanying notes to basic financial statements.

(Concluded)

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STATE OF HAWAII

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Agency Funds
ASSETS:	
Cash and cash equivalents	$ 331,105
Receivables — taxes	7,587
Due from individuals, businesses, and counties	54,049
Investments	73,130
Deposits and other assets — trust	13,634
Total assets	$ 479,505
LIABILITIES AND NET ASSETS:	
Vouchers payable	$ 50,863
Due to individuals, businesses, and counties	428,642
Total liabilities	$ 479,505

See accompanying notes to basic financial statements.

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
ASSETS				
CASH AND CASH EQUIVALENTS	$ 47,031	$ 190,207	$ 35,344	$ 52,278
RECEIVABLES:				
Accounts and accrued interest (net of allowance for doubtful accounts of $177,399)	90,626	11,232	1,216	75,317
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts)	11,773	12,892	-	-
Federal government	-	-	5,475	-
Other	-	2,211	1,077	9,358
DUE FROM PRIMARY GOVERNMENT	3,788	-	53,233	42,425
INVESTMENTS	261,343	760	-	-
INVENTORIES:				
Developments in progress and dwelling units	-	23,237	-	-
Materials and supplies	13,470	-	884	15,924
PREPAID EXPENSES AND OTHER ASSETS	8,375	324	1,712	-
	436,406	240,863	98,941	195,302
RESTRICTED ASSETS:				
Cash and cash equivalents	-	29,054	-	2,071
Investments	-	305,797	-	-
Deposits, funded reserves, and other	-	409	7,183	-
Total restricted assets	-	335,260	7,183	2,071
CAPITAL ASSETS:				
Land and land improvements	101,007	43,378	25,340	6,484
Infrastructure	95,249	-	-	-
Construction in progress	170,744	-	27,386	31,224
Buildings, improvements, and equipment	1,924,971	157,758	582,231	502,097
Less accumulated depreciation	(935,107)	(93,317)	(327,173)	(254,219)
Total capital assets — net	1,356,864	107,819	307,784	285,586
OTHER ASSETS				
Notes, loans, mortgages, and contributions (net of allowance for doubtful accounts 187,560)	32,059	286,453	426	-
Due from Primary Government	335,480	15,494	-	-
Investments	499,332	7,010	-	-
Other assets	27,078	1,756	-	1,172
Total other assets	893,949	310,713	426	1,172
TOTAL	$ 2,687,219	$ 994,655	$ 414,334	$ 484,131

See accompanying notes to the basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 10,969	$ 42,268	$ 429	$ 378,526
-	1,001	1,273	180,665
-	-	-	24,665
-	-	-	5,475
9,326	1,452	-	23,424
-	3,290	-	102,736
847	-	192,108	455,058
-	-	-	23,237
-	-	-	30,278
-	1,092	-	11,503
21,142	49,103	193,810	1,235,567
9,730	-	-	40,855
15,363	-	-	321,160
-	-	-	7,592
25,093	-	-	369,607
131,497	140,957	-	448,663
-	43,125	-	138,374
-	4,915	-	234,269
214,242	19,257	-	3,400,556
(97,354)	(46,019)	-	(1,753,189)
248,385	162,235	-	2,468,673
-	-	-	318,938
-	-	-	350,974
-	-	-	506,342
-	4,268	-	34,274
-	4,268	-	1,210,528
$ 294,620	$ 215,606	$ 193,810	$ 5,284,375

(Continued)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 55,212	$ 1,220	$ 11,658	$ 70,586
Other accrued liabilities	134,085	14,474	3,780	-
Due to Primary Government	7,176	-	-	-
Due to federal government	-	-	16	-
Estimated future costs of land sold	-	35,482	-	-
Notes, mortgages, and installment contracts payable	-	54	123	13,771
Accrued vacation and retirement benefits payable	24,005	-	-	15,894
Revenue bonds payable	7,285	7,497	-	-
Reserve for losses and loss adjustment costs	4,172	-	-	3,100
Capital lease obligations	-	-	-	9,509
Deferred commitment fees	-	249	-	
Other liabilities	-	25,965	1,226	2,348
Total current liabilities	231,935	84,941	16,803	115,208
NONCURRENT LIABILITIES:				
Notes, mortgages, and installment contracts payable	-	5,692	171	26,379
Accrued vacation and retirement benefits payable	41,888	-	-	22,177
Revenue bonds payable	344,315	460,844	-	-
Reserve for losses and loss adjustment costs	7,573	-	-	12,632
Premium on bonds payable	1,630	-	-	-
Capital lease obligations	-	-	-	24,871
Other postemployment benefit liability	206,271	-	-	105,205
Due to Primary Government	-	-	-	23,300
Other liabilities	7,660	4,165	6,064	25,502
Total noncurrent liabilities	609,337	470,701	6,235	240,066
TOTAL	841,272	555,642	23,038	355,274
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	1,099,820	7,715	307,659	222,054
RESTRICTED	680,298	335,255	7,160	672
UNRESTRICTED (DEFICIT)	65,829	96,043	76,477	(93,869)
TOTAL	1,845,947	439,013	391,296	128,857
TOTAL LIABILITIES AND NET ASSETS	$ 2,687,219	$ 994,655	$ 414,334	$ 484,131

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 680	$ 581	$ 3	$ 139,940
90	97	-	152,526
20,799	-	5,616	33,591
-	-	-	16
-	-	-	35,482
-	-	-	13,948
109	-	-	40,008
-	-	-	14,782
-	-	-	7,272
-	-	-	9,509
-	-	-	249
158	530	-	30,227
21,836	1,208	5,619	477,550
-	-	-	32,242
308	-	-	64,373
-	-	-	805,159
-	-	-	20,205
-	-	-	1,630
-	-	-	24,871
759	-	-	312,235
298,516	-	-	321,816
-	26,620	-	70,011
299,583	26,620	-	1,652,542
321,419	27,828	5,619	2,130,092
(20,985)	166,503	-	1,782,766
(5,814)	47,836	-	1,065,407
-	(26,561)	188,191	306,110
(26,799)	187,778	188,191	3,154,283
$ 294,620	$ 215,606	$ 193,810	$ 5,284,375

(Concluded)

STATE OF HAWAII

COMPONENT UNITS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	University of Hawaii	Hawaii Housing Finance and Development Corporation	Hawaii Public Housing Authority	Hawaii Health Systems Corporation
EXPENSES	$ 1,443,894	$ 60,326	$ 141,260	$ 572,310
PROGRAM REVENUES:				
Charges for services	339,840	38,665	21,990	471,177
Operating grants and contributions	474,347	32,327	70,143	3,228
Capital grants and contributions	-	-	17,496	37,945
Total program revenues	814,187	70,992	109,629	512,350
Net program (expenses) revenues	(629,707)	10,666	(31,631)	(59,960)
GENERAL REVENUES (EXPENSES):				
Interest and investment income	28,146	9,847	-	943
Payments from (to) the State	711,800	24,839	58,581	98,261
Other	15,650	-	360	(2,790)
Net general revenues	755,596	34,686	58,941	96,414
Change in net assets	125,889	45,352	27,310	36,454
NET ASSETS — Beginning of year — as previously reported	1,720,058	393,661	363,986	92,403
ADJUSTMENTS (NOTE 15)	-	-	-	-
NET ASSETS — Beginning of year — as restated	1,720,058	393,661	363,986	92,403
NET ASSETS — End of year	$ 1,845,947	$ 439,013	$ 391,296	$ 128,857

See accompanying notes to basic financial statements.

Hawaii Tourism Authority	Hawaii Community Development Authority	Hawaii Hurricane Relief Fund	Total Component Units
$ 157,448	$ 7,920	$ 4	$ 2,383,162
8,650	4,566	-	884,888
-	-	-	580,045
-	-	-	55,441
8,650	4,566	-	1,520,374
(148,798)	(3,354)	(4)	(862,788)
591	3,160	5,831	48,518
101,978	3,906	(5,613)	993,752
(978)	26	-	12,268
101,591	7,092	218	1,054,538
(47,207)	3,738	214	191,750
20,408	183,537	187,977	2,962,030
-	503	-	503
20,408	184,040	187,977	2,962,533
$ (26,799)	$ 187,778	$ 188,191	$ 3,154,283

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the State of Hawaii (the “State”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The State’s significant accounting policies are described below.

Reporting Entity — The accompanying basic financial statements present the financial activity of the State (“Primary Government”) and its Component Units, entities for which the Primary Government is considered to be financially accountable. Discretely presented Component Units are legally separate organizations for which the Primary Government is financially accountable or for which the nature and significance of their relationship to the Primary Government are such that exclusion would cause the State’s reporting entity to be misleading or incomplete.

Primary Government — The following branches and departments are included in the State’s reporting entity because of the significance of their operational or financial relationships with the State.

Executive:
- Accounting and General Services
- Agriculture
- Attorney General
- Budget and Finance
- Business, Economic Development and Tourism
- Commerce and Consumer Affairs
- Defense
- Education
- Hawaiian Home Lands
- Health
- Human Resources Development
- Human Services
- Labor and Industrial Relations
- Land and Natural Resources
- Public Safety
- Taxation
- Transportation

Judicial

Legislative

Discretely Presented Component Units — The Component Units column in the basic financial statements includes the financial data of the State’s discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the Governor of the State (“Governor”). The discretely presented Component Units are as follows:

University of Hawaii — The State's public institutions of higher education provide instruction and conduct research in, and disseminate knowledge of, agriculture, economics, history, languages, literature, mathematics, mechanical arts, natural sciences, philosophy, political and social sciences, physics, and such other branches of advanced learning as the Board of Regents of the University of Hawaii (UH) may prescribe and the federal government requires.

Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH. The activities of the UH are under the general management of the Board of Regents consisting of 12 members who are appointed and may be removed by the Governor.

Hawaii Housing Finance and Development Corporation — Hawaii Housing Finance and Development Corporation (HHFDC) is a corporate body placed within the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes. The HHFDC is tasked with developing and financing low and moderate income housing projects and administering home-ownership programs. HRS 201H states that the HHFDC shall be a public body and a body corporate and politic and be headed by a board of directors comprised of nine voting members. The nine members consist of the following:

- Six shall be public members appointed by the Governor:
  - At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing.
  - Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai.
  - At least one public member shall represent community advocates for low-income housing, affiliated with private nonprofit organizations that serve the residents of low-income housing.
  - The public members of the board of directors shall serve four-year staggered terms; provided that the initial appointments shall be as follows:
    - Two members to be appointed for four years;
    - Two members to be appointed for three years; and
    - Two members to be appointed for two years.
- The Director of DBEDT or a designated representative,
- The Director of Finance or a designated representative, and
- A representative of the Governor's office.

Hawaii Public Housing Authority — The Hawaii Public Housing Authority (HPHA) was established as a corporate body to be placed within the Department of Human Services for administrative purposes. The HPHA is charged with managing federal and state public housing programs, including Section 8 and senior housing.

HRS Chapter 356D states that the HPHA shall be a public body and a body corporate and politic and be headed by a board of directors comprised of 11 members. The 11 members consist of the following:

- Nine public members appointed by the Governor (four appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai, and five appointed at large);
- The Director of Human Services, as an Ex Officio voting member; and
- The Representative of the Governor’s Office, as an Ex Officio voting member.

Hawaii Health Systems Corporation — The Hawaii Health Systems Corporation (HHSC) was established as a corporate body to be placed within the Department of Health for administrative purposes. The HHSC, consisting of the state hospitals, was created to provide quality health care for all of the people in the State, including those serviced by small rural facilities, by freeing the facilities from unwarranted bureaucratic oversight.

HRS Chapter 323F states that the HHSC shall be a public body corporate and politic and an instrumentality and agency of the State. The HHSC commenced operations on July 1, 1996. The statute provides that the HHSC shall be governed by a board of directors. In June 2007, the State Legislature enacted Act 290, SLH of 2007. The Act, which became effective on July 1, 2007, required the establishment of a seven to 15-member regional system board of directors for each of the five regions of the HHSC. Each regional board of directors was given custodial control and responsibility for management of the facilities and other assets in their respective regions.

In 2009, the Legislature passed Act 182, S.B. 1673, effective July 1, 2009, which allowed the individual facilities or regions of HHSC to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including but not limited to a non-profit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The Act also reconstituted the HHSC board of directors to a twelve-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards, two members appointed by the Maui regional board, and the Director of the Department of Health as an ex-officio non-voting member.

The State provides significant operating subsidies to the HHSC. Accordingly, a financial benefit/burden relationship exists between the State and the HHSC.

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities, and fund balances between the Department of Health and the HHSC pursuant to Act 262 have not been finalized as of June 30, 2010. Accordingly, the assets, liabilities, and net assets of HHSC reflected in the accompanying consolidated statements of net assets may be significantly different from those eventually included in the final settlement.

The HHSC is divided into five regions and currently operates the following facilities:

East Hawaii Region:
Hilo Medical Center
Hale Ho‘ola Hamakua
Ka‘u Hospital
Yukio Okutsu Veterans Care Home

West Hawaii Region:
Kona Community Hospital
Kohala Hospital

Kauai Region:
Kauai Veterans Memorial Hospital
Samuel Mahelona Memorial Hospital

Maui Region:
Maui Memorial Medical Center
Kula Hospital
Lanai Community Hospital

Oahu Region:
Leahi Hospital
Maluhia
Kahuku Medical Center

Hawaii Tourism Authority — The Hawaii Tourism Authority (HTA) was established on January 1, 1999, by Act 156, SLH of 1998 and was placed within DBEDT for administrative purposes. The HTA is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State's tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (the "Center") was transferred to the HTA from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the HTA. The Center, which opened to the general public in June 1998, is used for a variety of events including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space including 51 meeting rooms.

The HTA is governed by a board of directors comprised of 12 voting members.

Hawaii Community Development Authority — The Hawaii Community Development Authority (HCDA) was established as a corporate body to be placed within DBEDT for administrative purposes. The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The HCDA has redevelopment responsibility for the Kaka`ako and Kalaeloa Community Development Districts.

HRS Chapter 206E states that the HCDA shall be a body corporate and a public instrumentality of the State. The HCDA is composed of 18 voting members, 13 of whom vote on issues related to Kaka`ako and Kalaeloa, and five of whom vote only on Kalaeloa matters. The 18 members consist of the following:

- Thirteen members that vote on issues related to Kaka`ako and Kalaeloa:
    - Two members appointed by the Governor from a list of names submitted by the President of the Senate and the Speaker of the House of Representatives;
    - Three members appointed by the Governor from a list of names submitted by the Honolulu City Council;

  - Four at-large members appointed by the Governor;
  - The Director of Budget and Finance, as an Ex Officio voting member;
  - The Director of DBEDT, as an Ex Officio voting member;
  - The Comptroller of the Department of Accounting and General Services, an Ex Officio voting member; and
  - The Director of Transportation, as an Ex Officio voting member.

- Five members appointed by the Governor that vote only on issues related to Kalaeloa:
  - The Chairperson of the Hawaiian Homes Commission;
  - The Director of the City and County of Honolulu Department of Planning and Permitting;
  - Two members from the surrounding community, one of which is selected by the Mayor of the City and County of Honolulu; and
  - One member who is a Hawaiian Cultural Specialist.

Hawaii Hurricane Relief Fund — The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

Although the HHRF no longer functions in its capacity to provide hurricane property insurance coverage subsequent to November 2001, it has been determined at this time that the HHRF should not be dissolved in the event it may need to reenter the insurance market.

The HHRF is administered and operated by a board of directors. The board of directors consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
  - Two members appointed by the Governor;
  - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and

- Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services (DAGS), 1151 Punchbowl Street, Room 400, Honolulu, Hawaii 96813.

The Employees' Retirement System of the State of Hawaii (ERS), which is administered on behalf of public employees for both the State and county governments, and the Office of Hawaiian Affairs (OHA), which exists for the betterment of the conditions of native Hawaiians, are excluded from the State's reporting entity because those agencies, based on the fiscal independence and/or separate legal entity status, are not accountable to the State.

Government-Wide and Fund Financial Statements — The Government-Wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Primary Government and its Component Units. For the most part, the effect of interfund activity has been removed from these Government-Wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from the legally separate Component Units for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when legally enforceable enabling legislation places restrictions or when restrictions are externally imposed by citizens and/or public interest groups. Additionally, restricted net assets are reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, Fiduciary Funds, and major Component Units. However, the Fiduciary Funds are not included in the Government-Wide financial statements. Major individual Governmental Funds and major individual Proprietary Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation —

Government-Wide Financial Statements — The Government-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements — The Governmental Funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits, and franchises.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements — The financial statements of the Proprietary Funds, Fiduciary Funds, and Component Units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the Government-Wide financial statements described above. Agency Funds do not have a measurement focus and report only assets and liabilities.

In accordance with the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the State has elected not to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

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.

Fund Accounting — The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor Governmental and Proprietary Funds. In addition, a description of the Fiduciary Funds and Component Units are as follows:

Governmental Fund Types — The State reports the following major Governmental Funds:

- General Fund — This fund is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- Capital Projects Fund — This fund accounts for substantially all of the financial resources obtained and used for the acquisition or construction of the State's capital assets and facilities. Such resources are derived principally from proceeds of general obligation and revenue bond issues, federal grants, and transfers from the Special Revenue Funds.

- Med-Quest Special Revenue Fund – This fund accounts for the State's Medicaid program through which healthcare is provided to the low-income population. The Medicaid program is jointly financed by the State and the federal government.

The nonmajor Governmental Funds are comprised of the following:

- Special Revenue Funds — These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

- Debt Service Fund — This fund accounts for the financial resources obtained and used for the payment of principal and interest on general and revenue long-term bond obligations. This fund also accounts for financial resources obtained and used to refund existing debt.

Proprietary Fund Type — Enterprise Funds — The major Enterprise Funds are comprised of the following:

- Department of Transportation — Airports Division ("Airports") — Airports operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.

- Department of Transportation — Harbors Division ("Harbors") — Harbors maintains and operates the State's commercial harbors system.

- Unemployment Compensation Fund — This fund accounts for the unemployment compensation benefits to qualified recipients.

The nonmajor Enterprise Funds are comprised of, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), the Water Pollution Control Revolving Fund (WPCF), and the Drinking Water Revolving Treatment Loan Fund (DWTLF). The EUTF accounts for the benefits relating to active employees and beneficiaries, which includes medical, dental, and life insurance coverage. The WPCF accounts for loans to county agencies for the construction of wastewater treatment facilities. The DWTLF accounts for loans to county agencies for construction of drinking water treatment facilities.

Fiduciary Fund Types —

- Agency Funds — Agency Funds account for retiree healthcare benefits, which includes medical, dental, and life insurance coverage as well as, various taxes, deposits, and property held by the State, pending distribution to other governments and individuals.

Component Units — Component Units are comprised of (1) the UH, which is comprised of the State's public institutions of higher education; (2) the HHFDC, which finances housing programs for residents of the State; (3) the HPHA, which manages state housing programs; (4) the HHSC, which was established to provide quality health care for all of the people of the State; (5) the HTA, which manages the State's convention center as well as markets the State's visitor industry; (6) the HCDA, which coordinates private and public community development for residents of the State; and (7) the HHRF, which funds, assesses, and provides, when necessary, hurricane property insurance to residents of the State.

Cash and Cash Equivalents — Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and time certificates of deposit. For purposes of the statement of cash flows, the State has defined cash equivalents to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Receivables and Payables — Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the Government-Wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All tax and other receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Investments — Investments in U.S. government securities and time certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

Inventories — Inventories of developments in progress and units available for sale are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific-identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development.

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

Inventories in the Governmental Funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets — Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds, and investment securities, including U.S. government or agency obligations, certain municipal bonds, and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

Capital Assets — Capital assets, which include land and land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings and improvements, and equipment, are reported in the applicable governmental and business-type activities columns, as well as the Component Units column, in the Government-Wide financial statements. 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.

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 of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period.

The State's capitalization thresholds are $5,000 for equipment, and $100,000 for land and land improvements, infrastructure, and buildings and improvements. 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 activities.

Capital assets of the Primary Government, as well as the Component Units, are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	12–50 years
Buildings and improvements	15–30 years
Equipment	5–7 years

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are capitalized. These items are protected, kept encumbered, conserved, and preserved by the State. It is the State's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

Compensated Absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide, Proprietary Funds, and Component Units financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations — In the Government-Wide financial statements, Proprietary Fund financial statements, and Component Unit financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, Proprietary Fund, or Component Units statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, Governmental Funds recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Balance — In the Government-Wide financial statements and Proprietary Funds and Component Units financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State (such as citizens, public interest groups, or the judiciary), or imposed by law through enabling legislation, and include unspent proceeds of bonds issued to acquire or construct capital assets.

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Portions of fund balances are reserved in the fund financial statements for the following:

- Continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

- Notes and loans receivable, advances, and investments which are not currently available for expenditure at the Governmental Funds' balance sheet date.

- Federal aid highway projects encumbrances.

- Bond redemption and other.

Portions of the unreserved fund balances are designated for future capital and operating expenditures. Those designated fund balances represent appropriations which have not been allotted and are established to reflect tentative plans for the future use of financial resources.

Nonexchange Transactions — The Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Medicare and Medicaid Reimbursements — Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State has the opinion that adequate provision has been made for any adjustments that may result from such reviews.

Risk Management — The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1 million per occurrence of property losses, the first $4 million with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $100 million, except for flood and earthquake, which individually is a $100 million aggregate loss, and terrorism which is $50 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is $10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of $25 million per occurrence and $29 million in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

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

Deferred Compensation Plan — The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their 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 State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

Use of Estimates — The preparation of basic 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 may differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 51 — The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for periods beginning after June 15, 2009. This statement establishes accounting and financial reporting requirements for intangible assets. The State's financial statements were not impacted by the adoption of GASB Statement 51.

GASB Statement No. 53 — The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The Statement requires governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. The State's financial statements were not impacted by the adoption of GASB Statement 53.

GASB Statement No. 54 — The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for periods beginning after June 15, 2010. This Statement establishes standards of accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specially defined classifications and clarifies definitions for governmental fund types. This Statement is effective for financial statement periods beginning after June 15, 2010.

GASB Statement No. 55 — The GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued in March 2009. The objective of this Statement is to incorporate the hierarchy of GAAP for state and local governments into the GASB's authoritative literature. The provisions of this Statement are effective for financial statements upon issuance in March 2009.

GASB Statement No. 56 — The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement incorporates into GASB the following three accounting and reporting guidelines currently existing in the American Institute of Certified Public Accounts' Statement on Auditing Standards — related party transactions, going concern considerations and subsequent events. The adoption of GASB Statement No. 56 did not have an impact on the State's financial position or results of operations.

GASB Statement No. 57 — The GASB issued Statement No. 57, *OPEB Measurements by Agent Employers, and Agent Multiple-Employer Plans*. The provisions related to the use and reporting of the alternative measurement method were adopted and had no impact to the State's financial statements. The State is currently evaluating the impact of the provisions related to the frequency and timing of measurements which are effective for periods beginning after June 15, 2011.

GASB Statement No. 58 — The GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for periods beginning after June 15, 2009. This statement improves financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. This State's financial statements were not impacted by the adoption of GASB Statement No. 58.

GASB Statement No. 59 — The GASB issued Statement No. 59, *Financial Instruments Omnibus*, effective for periods beginning after June 15, 2010. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The State is currently evaluating the impact that GASB Statement No. 59 will have on its financial statements.

GASB Statement No. 60 — The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which will be effective for years beginning after December 15, 2011. This Statement improves financial reporting by addressing issues related to service concession arrangements. The State does not expect this Statement will have a material effect on its financial statements.

GASB Statement No. 61 — The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,* which will be effective for years beginning after June 15, 2012. This Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. The State is currently evaluating the impact that GASB No. 61 will have on its financial statements.

GASB Statement No. 62 — The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* is effective for reporting periods beginning after December 15, 2011. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 63 — The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which will become effective for financial statements for periods beginning after December 15, 2011. Statement 63 provides financial statement presentation guidance for these elements; however, it does not identify any additional items that should be recognized within these element classifications. Statement 63 only will apply to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources. The State does not expect that this Statement will have a material effect on its financial statements.

GASB Statement No. 64 — The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* which will become effective for financial statements for periods beginning after June 15, 2011. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The State does not expect that this Statement will have a material effect on its financial statements.

2. CASH AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies paid 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 Primary Government 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.

Cash — The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

The carrying amount of the State's unrestricted and restricted deposits (cash, time certificates of deposit, and money market accounts) as of June 30, 2010, was $1,500,886,000 and $804,804,000, respectively, for the Primary Government and $331,105,000 for the Fiduciary Funds.

Information relating to the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits for the Primary Government and Fiduciary Funds amounted to $2,353,137,000 at June 30, 2010. Of that amount, $2,353,137,000 represents bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State. Bank balances of $33,724,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized and the Special Revenue Funds' and Proprietary Funds' cash in bank, which was uninsured and uncollateralized. The Special Revenue Funds' and Proprietary Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits were 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 time 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.

Investments — The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance. The pool's investment options are limited to investments listed in the Hawaii Revised Statutes. As of June 30, 2010, the State had material investments in repurchase agreements. According to the Department of Budget and Finance, the repurchase agreement investment contracts are valued on the cost basis.

At the end of each year the Department of Budget and Finance ("Budget and Finance") allocates the investment pool amount to each of the participants including those participants who are part of the proprietary fund and fiduciary fund. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The following tables present the State's investments and maturities at June 30, 2010 (amounts expressed in thousands).

		Maturity (in years)		
	Fair Value	**Less than 1**	**1–5**	**>5**
Investments — Primary Government:				
Student loan auction rate securities	$ 337,948	$ -	$ -	$ 337,948
Certificates of deposit	7,504	3,937	3,567	-
U.S. government securities	294,145	207,364	73,431	13,350
Repurchase agreements	269,557	234,408	35,149	-
	$ 909,154	$ 445,709	$ 112,147	$ 351,298
Investments — Fiduciary Funds:				
Student loan auction rate securities	$ 46,804	$ -	$ -	$ 46,804
Certificates of deposit	731	731	-	-
U.S. government securities	23,401	-	-	23,401
Repurchase agreements	2,194	2,194	-	-
	$ 73,130	$ 2,925	$ -	$ 70,205

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk — The State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

The State's investments include auction rate securities collateralized by student loans issued by the federal government. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and reset the applicable interest rate at predetermined intervals of 7 to 28 days. Beginning in 2009 and throughout 2010, auctions failed and investors without the ability to hold such securities until maturity have taken significant losses. The auction failures appear to have been attributable to inadequate buyers and/or buying demand. In the event that there is a failed auction, the indenture governing the security generally requires the issuer to pay interest at a default rate that is generally above market rates for similar instruments. The securities for which auctions have failed will continue to accrue interest at the predetermined rate and be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties. During 2010, the State recorded a fair value adjustment of $146,644,000 to increase the carrying value of the State investment pool's auction rate securities to their fair value at June 30, 2010. See additional information on auction rate securities at Footnote No. 14.

Custodial Risk — For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping, certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk — The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

3. CAPITAL ASSETS

For the fiscal year ended June 30, 2010, capital assets activity for the Primary Government (governmental activities and business-type activities) was as follows (amounts expressed in thousands):

	Governmental Activities			
	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010
Capital assets not being depreciated:				
Land and land improvements	$ 2,066,493	$ 68,215	$ (6,022)	$ 2,128,686
Construction in progress	880,248	496,343	(686,862)	689,729
Total capital assets not being depreciated	2,946,741	564,558	(692,884)	2,818,415
Capital assets being depreciated:				
Infrastructure	8,221,045	433,818	(254)	8,654,609
Buildings and improvements	3,291,469	210,184	-	3,501,653
Equipment	344,770	18,271	(12,877)	350,164
Total capital assets being depreciated	11,857,284	662,273	(13,131)	12,506,426
Less accumulated depreciation:				
Infrastructure	(4,223,950)	(233,100)	254	(4,456,796)
Buildings and improvements	(1,737,654)	(108,183)	-	(1,845,837)
Equipment	(272,321)	(16,992)	7,509	(281,804)
Total accumulated depreciation	(6,233,925)	(358,275)	7,763	(6,584,437)
Total capital assets	$ 8,570,100	$ 868,556	$ (698,252)	$ 8,740,404

	Business-Type Activities			
	Adjusted Balance, July 1, 2009 (As Restated See note 15)	Additions	Deductions	Balance, June 30, 2010
Capital assets not being depreciated:				
Land and land improvements	$ 585,015	$ -	$ -	$ 585,015
Construction in progress	310,016	188,344	(246,062)	252,298
Total capital assets not being depreciated	895,031	188,344	(246,062)	837,313
Capital assets being depreciated:				
Buildings and improvements	2,875,585	226,695	(104)	3,102,176
Equipment	229,933	23,043	(1,757)	251,219
Total capital assets being depreciated	3,105,518	249,738	(1,861)	3,353,395
Less accumulated depreciation:				
Buildings and improvements	(1,541,419)	(98,421)	-	(1,639,840)
Equipment	(160,020)	(11,491)	1,252	(170,259)
Total accumulated depreciation	(1,701,439)	(109,912)	1,252	(1,810,099)
Total capital assets	$ 2,299,110	$ 328,170	$ (246,671)	$ 2,380,609

Depreciation expense for the fiscal year ended June 30, 2010, was charged to functions/programs of the Primary Government as follows:

	2010
Governmental activities:	
Highways	$ 221,432
Lower education	62,427
General government	20,100
Public safety	11,575
Urban redevelopment and housing	19,848
Conservation of natural resources	10,431
Health	4,631
Economic development and assistance	4,460
Welfare	2,405
Culture and Recreation	966
Total depreciation expense — governmental activities	$ 358,275
Business-type activities:	
Airports	$ 92,861
Harbors	16,068
DWTLF	69
EUTF	914
WPCRF	-
Total depreciation expense — business-type activities	$ 109,912

4. GENERAL OBLIGATION BONDS PAYABLE

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt are being retired from the resources of the Proprietary Funds - Airports and Harbors and are recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues, except certain maturities of Series BW, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA, issued January 1, 1983; Series CH and CI, issued November 1, 1993; Series CM, issued December 1, 1996; Series CO, issued March 1, 1997; Series CY, issued February 15, 2002; Series DL and DM, issued May 20, 2008; Series DO and DP, issued December 16, 2008; Series DR, issued June 23, 2009 and Series DX, issued February 18, 2010, contain call provisions. Stated interest rates range from 3% to 6%.

On November 5, 2009, the State issued $32,000,000 general obligation bonds, Qualified School Construction Bonds, Series DS. Interest rates ranged from .2% to 1.45%. The Series DS bonds are subject to redemption prior to their stated maturity dates only upon extraordinary mandatory redemption as provided in the Bond Issuance Certificate, otherwise it is not subject to early redemption. Bond series were issued at a discount, which will be amortized over the life of the bonds using the effective interest rate method. The bonds were issued for the purpose of financing costs of the construction, rehabilitation or repair of school facilities throughout the State.

On November 24, 2009, the State issued $204,140,000, $6,260,000, $46,855,000 and $36,425,000 of general obligation refunding bonds of 2009, Series DT, DU, DV and DW, respectively. Interest rates ranged from 2% to 5% to advance refund $283,085,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $320,404,000 (including a premium of $28,042,000 and after payment of $1,318,000 in underwriting fees) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advanced refunding, the State decreased its total debt service payments over the next 10 years by $65,000,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $19,347,000. The Series DT, DU, DV and DW bonds are not subject to optional redemption by the State prior to their respective stated maturities. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

On February 18, 2010, the State issued $500,000,000 general obligation bonds, Series DX (Build America Bonds) with interest rates ranging from 3% to 5.53%. The Series DX are subject to redemption at the option of the State as described in the certificate under optional make-whole redemption and extraordinary optional redemption, prior to their stated maturities. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method. The bond series DX was issued for the purpose of financing the Hawaiian Home Lands Trust settlement and various public improvement projects.

In addition, the State issued $221,625,000 of general obligation refunding bonds of 2010, Series DY, dated February 18, 2010. Interest rates ranged from 3% to 5% to advance refund $227,455,000 of certain outstanding general obligation bonds previously issued. The net proceeds of $248,642,000 (including a premium of $27,951,000 and after payment of $934,000 in underwriting fees) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding general obligation bonds. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advanced refunding, the State increased its total debt service payments over the next 10 years by $27,628,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $4,849,000. The Series DY bonds are not subject to optional redemption by the State prior to their respective stated maturities. The bonds were issued at a premium, which will be amortized over the life of the bonds using the effective interest rate method.

The State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's basic financial statements. At June 30, 2010, $913,150,000 of bonds outstanding is considered defeased.

At June 30, 2010, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable	$ 3,943,850
Noncallable	1,250,710
Total general obligation bonds outstanding	5,194,560
Less amount recorded as a liability of:	
Proprietary Funds — Harbors	(37,362)
Amount recorded in the governmental activities of the Primary Government	$ 5,157,198

A summary of general obligation bonds outstanding by series as of June 30, 2010, is as follows (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount	Amount Outstanding
BW	March 1, 1992	6.250%	March 1, 2012	$ 100,000	$ 5,555
BZ	October 1, 1992	6.000%	October 1, 2012	200,000	1,535
CA	January 1, 1993	5.500%–8.000%	January 1, 2012–2013	90,000	10,000
CH	November 1, 1993	4.750%	November 1, 2011–2013	250,000	41,655
CI	November 1, 1993	4.900%	November 1, 2010	316,915	10,865
CL	March 1, 1996	6.000%	March 1, 2011	100,000	5,555
CM	December 1, 1996	6.000-6.500%	December 1, 2012–2016	150,000	41,650
CO	March 1, 1997	6.000%	September 1, 2010, March 1, 2011	231,755	26,035
CP	October 1, 1997	5.500%	October 1, 2010	200,000	3,345
CV	August 1, 2001	4.800%–5.500%	August 1, 2011–2021	300,000	67,790
CW	August 1, 2001	4.200%–5.500%	August 1, 2010–2015	156,750	78,335
CX	February 15, 2002	4.300%–5.500%	February 1, 2012–2022	250,000	90,955
CY	February 15, 2002	5.500%–5.750%	February 1, 2011–2015	319,290	188,110
CZ	November 26, 2002	3.500%–5.500%	July 1, 2011–2022	300,000	46,305
DA	September 16, 2003	3.750%–5.250%	September 1, 2011–2023	225,000	178,870
DB	September 16, 2003	4.000%–5.250%	September 1, 2010–2016	188,650	142,115
DD	May 13, 2004	3.700%–5.250%	May 1, 2012–2024	225,000	169,885
DE	November 10, 2004	3.000%–5.000%	October 1, 2011–2024	225,000	205,085
DF	June 15, 2005	3.250%–5.000%	July 1, 2011–2025	225,000	206,600
DG	June 15, 2005	5.000%	July 1, 2010–2017	722,575	657,390
DI	March 23, 2006	3.800%–5.500%	March 1, 2013–2026	350,000	306,490
DJ	April 12, 2007	3.625%–5.000%	April 1, 2012–2027	350,000	320,990
DK	May 20, 2008	3.000%–5.000%	May 1, 2012–2028	375,000	373,920
DL	May 20, 2008	3.000%–5.000%	May 1, 2012–2018	29,010	29,010
DM	May 20, 2008	4.010%–4.670%	May 1, 2011–2014	25,000	17,255
DN	December 16, 2008	3.000%–5.500%	August 1, 2012–2028	100,000	100,000
DO	December 16, 2008	3.000%–5.000%	August 1, 2011–2018	101,825	101,825
DP	December 16, 2008	4.150%–5.680%	August 1, 2011–2016	26,000	26,000
DQ	June 23, 2009	3.000%–5.000%	June 1, 2013–2029	500,000	490,220
DR	June 23, 2009	3.000%–5.000%	June 1, 2014–2019	225,410	203,910
DS	November 5, 2009	0.200%–1.450%	September 15, 2014–2024	32,000	32,000
DT	November 24, 2009	2.250%–5.000%	November 1, 2014–2019	204,140	204,140
DU	November 24, 2009	4.000%	November 1, 2011	6,260	6,260
DV	November 24, 2009	2.000%–5.000%	November 1, 2012	46,855	46,855
DW	November 24, 2009	2.250%–5.000%	November 1, 2013	36,425	36,425
DX	February 18, 2010	3.000%–5.530%	February 1, 2015–2030	500,000	500,000
DY	February 18, 2010	3.000%–5.000%	February 1, 2015–2020	221,625	221,625
					$ 5,194,560

The general obligation bonds outstanding financed the Hawaiian Homes Lands Trust settlement and the acquisition, construction, extension, or improvement of various public improvement projects, including public buildings and facilities, public schools, community college and university facilities, public libraries and parks, and for other public purposes.

A summary of the bond premium activities for fiscal year 2010 is as follows (amounts expressed in thousands):

Balance — July 1, 2009	$ 231,245
Additions — GO Bond Series DT, DU, DV, DW, DX, and DY	59,180
Current-year amortization	(38,038)
Balance — June 30, 2010	$ 252,387

A summary of debt service requirements to maturity on the governmental activities' general obligation bonds is as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2011	$ 169,654	$ 246,753	$ 416,407
2012	285,911	238,059	523,970
2013	369,552	223,167	592,719
2014	384,967	205,746	590,713
2015	434,911	187,798	622,709
2016–2020	1,840,653	645,518	2,486,171
2021–2025	1,093,179	301,574	1,394,753
2026–2030	578,371	72,350	650,721
	$ 5,157,198	$ 2,120,965	$ 7,278,163

A summary of debt service requirements to maturity on the business-type activities' general obligation bonds are as follows (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2011	$ 1,141	$ 1,819	$ 2,960
2012	1,609	1,772	3,381
2013	1,678	1,702	3,380
2014	1,758	1,623	3,381
2015	1,844	1,537	3,381
2016–2020	10,642	6,262	16,904
2021–2025	13,536	3,368	16,904
2026–2028	5,154	400	5,554
	$ 37,362	$ 18,483	$ 55,845

The State Constitution limits the amount of general obligation bonds, which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2010, was $320,845,000.

At June 30, 2010, general obligation bonds authorized but unissued were approximately $981,814,000.

5. REVENUE BONDS PAYABLE

Governmental Activities — On April 2, 2009, the State of Hawaii Department of Hawaiian Homelands (DHHL) issued $42,500,000 in Revenue Bonds, Series 2009, with interest rates ranging from 3% to 6% to finance the construction of certain DHHL capital improvements projects. The bonds are payable semiannually on April and October 1 through 2039.

The bonds are payable from and collateralized by the Department's revenues generated from certain capital improvement projects.

On December 17, 2008, the Highways issued $125,175,000 in State of Hawaii Highway Revenue Bonds, Series 2008, with interest rates ranging from 4% to 6% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2029.

On March 15, 2005, the Highways issued $60,000,000 in State of Hawaii Highway Revenue Bonds of 2005, Series A, with interest rates ranging from 3% to 5% to finance certain highway capital improvement projects and related projects. The bonds are payable semiannually on January and July 1 through 2025.

On March 15, 2005, Highways issued $123,915,000 of State of Hawaii Highway Revenue Bonds of 2005, Series B, with interest rates ranging from 3% to 5.25% to advance refund $128,705,000 of certain outstanding highway revenue bonds previously issued. The bonds are payable semiannually on January and July 1 through 2021.

On April 15, 2003, Highways issued $44,940,000 in State of Hawaii Highway Revenue Bonds, Series of 2003, with interest rates ranging from 3.5% to 5.25% to advance refund $45,350,000 of outstanding State of Hawaii Highway Revenue Bonds, Series of 1993, with an average interest rate of 4.42%. The bonds are payable semiannually on January and July 1 through 2013.

On October 25, 2001, Highways issued $70,000,000 of State of Hawaii Highway Revenue Bonds, Series of 2001. The bonds bear interest at rates ranging from 4% to 5% and are payable semiannually on January and July 1 through July 2022.

On October 31, 2000, Highways issued State of Hawaii Highway Revenue Bonds, Series of 2000, in the principal amount of $45,630,000. The bonds bear interest at rates ranging from 4.9% to 5.5% and mature in annual installments through July 2010.

On July 1, 1998, Highways issued State of Hawaii Highway Revenue Bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 was used to finance certain highway improvements and other related projects for the state highways system, and $25,621,000 was used to refund certain outstanding highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates of 5.5% and mature in annual installments through July 2018.

The bonds are payable solely from and collateralized by the revenues, consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, and rental motor vehicle and tour vehicle surcharge taxes.

In addition to the proceeds from the State of Hawaii Highway Revenue Bonds of 2005, Series B; the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 2003, DHHL's revenue bonds, Refunding Series of 1999; and a portion of the proceeds of the State of Hawaii Highway Revenue Bonds, Series of 1998 (see above); were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements, as DHHL and Highways defeased their obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2010, bonds outstanding considered defeased amounted to $72,295,000.

The following is a summary of Highways' and DHHL revenue bonds issued and outstanding at June 30, 2010 (amounts expressed in thousands):

Series	Date of Issue	Interest Rates	Maturity Dates	Original Amount of Issue	Outstanding Amount
Highways:					
1998	July 1, 1998	5.500%	July 1, 2017–July 1, 2018	$ 94,920	$ 27,580
2000	October 31, 2000	4.90%–5.50%	July 1, 2010	45,630	2,335
2001	October 25, 2001	4.00%–5.00%	July 1, 2010–2022	70,000	11,450
2003	April 15, 2003	3.50%–5.25%	July 1, 2010–2013	44,940	20,115
2005 A	March 15, 2005	3.00%–5.00%	July 1, 2010–2025	60,000	51,385
2005 B	March 15, 2005	3.00%–5.25%	July 1, 2010–2021	123,915	123,915
2008	December 17, 2008	4.00%–6.00%	January 1, 2011–2029	125,175	121,575
DHHL:					
2009	April 2, 2009	3.00%–6.00%	April 1, 2011–2039	42,500	41,860
					$ 400,215

A summary of the revenue bond premium activities for fiscal year 2010 is as follows (amounts expressed in thousands):

	Revenue Bonds
Balance — July 1, 2009	$ 15,778
Current-year amortization	(4,034)
Balance — June 30, 2010	$ 11,744

Debt service requirements to maturity on revenue bonds are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2011	$ 21,590	$ 19,970	$ 41,560
2012	22,410	19,072	41,482
2013	23,340	18,080	41,420
2014	24,440	16,957	41,397
2015	25,840	15,757	41,597
2016–2020	134,990	58,026	193,016
2021–2025	78,700	30,685	109,385
2026–2030	48,405	13,053	61,458
2031–2035	10,065	4,986	15,051
2036–2039	10,435	1,611	12,046
	$ 400,215	$ 198,197	$ 598,412

Business-Type Activities — Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

Airports System Revenue Bonds — The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from $102 to $100.

The following is a summary of the Airports system revenue bonds issued and outstanding at June 30, 2010 (amounts expressed in thousands):

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2000A, refunding	5.50%–6.00%	2021	$ 26,415	$ 155
2000B, refunding	5.00%–6.00%	2020	261,465	26,100
2001, refunding	4.00%–5.75%	2021	423,255	345,160
2010A, refunding	2.00%–5.25%	2039	478,980	478,980
2010B, refunding	3.00%–5.00%	2020	166,000	166,000
			$ 1,356,115	1,016,395
Add unamortized premium				19,295
Less:				
Unamortized discount				
Deferred loss on refunding				(12,573)
Current portion				(23,615)
				$ 999,502

The liabilities for refunded bond issues and the related securities and trust accounts are not included in the accompanying basic financial statements as Airports defeased its obligations for payment of those bonds upon completion of those refunding transactions. As of June 30, 2010, bonds outstanding considered defeased amounted to $228,615,000.

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provides reserves for maturing debt principal, interest, sinking fund, and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverage for fire, workers' compensation, and public liability. At June 30, 2010, $232,484,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

On April 7, 2010, the Airports Division issued $478,980,000 and $166,000,000 of airports system revenue bonds (Refunding Series 2010A and Refunding Series 2010B, respectively) at interest rates ranging from 2.00% to 5.25% and 3.00% to 5.00%, respectively, to refund $196,015,000 of its outstanding Refunding Series of 2000A and 2000B bonds. Of the net proceeds of $656,137,000 (after the payment of $3,573,000 in underwriting fees, insurance and other costs), along with an additional $3,069,000 from the debt service reserve account, $204,061,000 were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Refunding Series of 2000A and 2000B bonds on July 1, 2010. As a result, the refunded portion of the Refunding Series 2000A and 2000B bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $7,942,000. This difference, reported in the accompanying financial statements as a reduction from airports system revenue bonds, is being charged to operations over the next 11 years.

Airports Special Facility Revenue Bonds ─ Airports entered into three special facility lease agreements, two with Continental Airlines, Inc. ("Continental") in November 1997 and July 2000, and one with Caterair International Corporation in December 1990, which was subsequently assigned to Sky Chefs, Inc. ("Sky Chefs") effective January 2002. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $25,255,000, $16,600,000, and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities and aggregated to $33,525,000 at June 30, 2010.

The following is a summary of pertinent information on the Airports special facility revenue bonds at June 30, 2010.

$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption at the option of Airports, upon the request of Continental, at prices ranging from 101% to 100%, depending on the dates of redemption, or at 100%, plus interest if the facilities are destroyed or damaged extensively.

Interest-only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

$16,600,000 Issue

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part, refund $18,225,000 of its outstanding Series of 1990 bonds (Continental). The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental or, if the facilities are destroyed or damaged extensively, at 100% of principal, plus interest.

$6,600,000 Issue

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2003, at the option of Airports, upon the request of Sky Chefs, at prices ranging from 103% to 100%, depending on the dates of redemption, or at 100%, plus interest if the facilities are destroyed or damaged extensively.

Special facility revenue bonds payable at June 30, 2010, consisted of the following (amounts expressed in thousands):

	Continental		Sky Chefs	Total
Current portion	$ 785	$ -	$ 900	$ 1,685
Noncurrent portion	10,115	21,725	-	31,840
	$ 10,900	$ 21,725	$ 900	$ 33,525

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset, and the special facility revenue bonds outstanding are recorded as a liability in the accompanying basic financial statements.

Harbors Revenue Bonds — The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the commercial harbors system and upon all improvements and betterments thereto, and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from $102.50 to $100.

The following is a summary of the Harbors' revenue bonds as of June 30, 2010 (amounts expressed in thousands):

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current: Principal Due July 1, 2010	Current: Principal Due January 1, 2011	Current: Total	Noncurrent
2000	July 1, 2029	4.50%–6.00%	$ 79,405	$ 2,785	$ -	$ 2,785	$ 53,600
2002	July 1, 2019	3.00%–5.50%	24,420	555	-	555	10,585
2004	January 1, 2024	2.50%–6.00%	52,030	-	3,770	3,770	23,365
2006	January 1, 2031	4.00%–5.25%	96,570	-	2,415	2,415	85,590
2007	July 1, 2027	4.25%–5.50%	51,645	1,470	-	1,470	48,150
			$ 304,070	4,810	6,185	10,995	221,290
Add unamortized premium						306	1,864
Less:							
Unamortized discount						(6)	(69)
Unamortized deferred loss on refunding						(439)	(4,791)
				$ 4,810	$ 6,185	$ 10,856	$ 218,294

Debt service requirements to maturity on the business-type activities' revenue bonds for fiscal years ending June 30 are aggregated below (amounts expressed in thousands):

Fiscal Year	Principal	Interest	Total
2011	$ 36,156	$ 58,555	$ 94,711
2012	35,085	64,878	99,963
2013	40,550	62,707	103,257
2014	59,740	60,003	119,743
2015	58,215	56,770	114,985
2016–2020	363,190	228,679	591,869
2021–2025	212,595	143,764	356,359
2026–2030	170,350	100,282	270,632
2031–2035	138,210	59,543	197,753
2036–2040	171,701	21,882	193,583
	$ 1,285,792	$ 857,063	$ 2,142,855

The above debt service requirements are set forth based upon funding requirements and are presented before unamortized premiums, discounts, and deferred loss on refunding, aggregating $3,587,000.

Revenue Bonds Authorized, but Unissued — At June 30, 2010, revenue bonds authorized, but unissued were approximately $4,347,661,000.

Special Purpose Revenue Bonds — HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its basic financial statements. Bonds outstanding at June 30, 2010, amounted to $1,744,303,000. At June 30, 2010, special purpose revenue bonds of $1,643,640,000 were authorized, but unissued.

Improvement District Bonds — The HCDA is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its basic financial statements. There were no bonds outstanding as of June 30, 2010.

6. CHANGES IN LONG-TERM LIABILITIES

Changes in the long-term liabilities for the Primary Government (governmental activities and business-type activities) were as follows (amounts expressed in thousands):

	Governmental Activities				
	Balance — July 1, 2009	Additions	Deductions	Balance — June 30, 2010	Due Within One Year
General obligation bonds payable — net	$ 4,779,666	$ 1,047,305	$ (669,773)	$ 5,157,198	$ 169,654
Accrued vacation payable	211,236	92,870	(92,003)	212,103	64,930
Revenue bonds payable	420,605	-	(20,390)	400,215	21,590
Reserve for losses and loss adjustment costs	150,761	32,770	(31,819)	151,712	37,544
Other postemployment benefits liability	716,748	817,321	(188,394)	1,345,675	-
Capital lease obligations	71,685	41,120	(48,420)	64,385	1,495
Total	$ 6,350,701	$ 2,031,386	$ (1,050,799)	$ 7,331,288	$ 295,213

	Business-Type Activities				
	Balance — July 1, 2009	Additions	Deductions	Balance — June 30, 2010	Due Within One Year
General obligation bonds payable — net	$ 38,329	$ -	$ (967)	$ 37,362	$ 1,141
Accrued vacation and retirement benefits payable	10,945	5,040	(4,770)	11,215	3,108
Revenue bonds payable	861,423	665,458	(241,089)	1,285,792	36,156
Reserve for losses and loss adjustment costs	4,707	945	(981)	4,671	1,176
Other postemployment benefits liability	13,288	19,100	(3,892)	28,496	3,222
Other	953	10,767	(411)	11,309	2,553
	$ 929,645	$ 701,310	$ (252,110)	$ 1,378,845	$ 47,356

The accrued vacation liability attributable to the governmental activities will be liquidated by the State's Governmental Funds. Approximately 84%, 15%, and 1% of the accrued vacation liability has been paid by the General Fund, Special Revenue Funds, and Capital Projects Fund, respectively, during the fiscal year ended June 30, 2010.

7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables consisted of the following at June 30, 2010 (amounts expressed in thousands):

	Due From	Due To
Governmental Funds:		
General Fund:		
Special Revenue Fund	$ 1,567	$ 12,600
Capital Projects Fund	89,900	-
Debt Service Fund	-	118
Nonmajor Governmental Funds	58,000	-
	149,467	12,718
Capital Projects Fund:		
General Fund	-	89,900
Med-Quest Special Revenue Fund:		
Special Revenue Fund	12,600	-
Nonmajor Governmental Funds:		
General Fund	118	59,567
	$ 162,185	$ 162,185

The due from Capital Projects Fund in the General Fund consists primarily of funds transferred prior to the issuance of bonds. Remaining interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

8. TRANSFERS

Transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended, or when nonrecurring or nonroutine transfers of equity between funds occur. For the fiscal year ended June 30, 2010, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Governmental Funds:		
General Fund — Nonmajor Governmental Funds	$ 16,586	$ 382,767
Capital Projects Fund — Nonmajor Governmental Funds	149,858	30,575
Med-Quest Special Revenue Fund — Nonmajor Governmental Funds	14,165	5,051
Nonmajor Governmental Funds:		
General Fund	5,494	16,586
Capital Projects Fund	30,575	149,858
Other Nonmajor Governmental Funds	505,132	136,973
	541,201	303,417
	$ 721,810	$ 721,810

The General Fund transferred approximately $376,775,000 to the Nonmajor Governmental Funds for debt service payments and approximately $5,991,000 to subsidize various Special Revenue Funds programs. Approximately, $149,858,000 of Highways receipts were transferred from the Nonmajor Governmental Funds to the Capital Projects Fund to finance capital projects.

9. LEASES

Lease Commitments

Governmental Activities — The State leases office facilities and equipment under various operating leases expiring through fiscal 2023. Future minimum lease commitments for noncancelable operating leases as of June 30, 2010, were as follows (amounts expressed in thousands):

Fiscal Year	
2011	$ 16,207
2012	10,492
2013	6,856
2014	4,241
2015	2,159
2016-2020	5,276
2021-2023	1,648
Total future minimum lease payments	$ 46,879

Rent expenditures for operating leases for the fiscal year ended June 30, 2010, amounted to approximately $39,716,000.

The State issued $41,120,000 in Certificates of Participation (COPS) 2009 Series A, on November 5, 2009, to fully refund $47,185,000 of the 1998 Series A Certificates and the 2000 Series A Certificates which proceeds were used to purchase the Kapolei State Office Building and the Capital District Building. The net proceeds of $43,490,000 (including a premium of $2,876,000 and after payment of $503,000 in underwriting fees) were deposited to the Depository Trust Company in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued outstanding certificates of participation. As a result, these bonds are considered to be defeased, and the liability for these bonds has been removed from the Government-Wide financial statements. Due to the advance refunding, the State reduced its total debt service payments over the next 10 years by $7,487,000 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,061,000. Payments commence on May 1, 2010, and continue through May 1, 2020 with interest rates ranging from 2% - 5%. The 2009 Series A Certificates are subject to prepayment prior to their maturity dates in the event of a casualty loss or governmental taking of all or a portion of the premises subject to the Leases, but are not otherwise subject to prepayment prior to maturity.

In November 2006, the State issued $24,500,000 in COPS to finance the construction of the Kapolei Office and Conference Facility. The proceeds of the COPS were remitted to a trustee, who will then remit the amounts to the developer as construction progresses. The holders of the COPS are the current owners of the Kapolei Office and Conference Facility. Accordingly, the State’s rental payments for the use of the Kapolei Office and Conference Facility are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2007, and continue through November 1, 2031, with interest rates ranging from 3.63% to 5.00%. Title to the Kapolei Office and Conference Facility will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

Fiscal Year	
2011	$ 4,417
2012	8,059
2013	8,061
2014	8,061
2015	8,059
2016–2020	31,497
2021–2025	8,559
2026–2030	8,551
2031–2032	3,425
Total future minimum lease payments	88,689
Less amount representing interest	(24,304)
Present value of net minimum lease payments	64,385
Less current portion	(1,495)
Noncurrent portion	$ 62,890

Lease Rentals

Airports — Airport-Airline Lease Agreement

Airports and the airline companies serving the Airports system ("signatory airlines") operated pursuant to an airport-airline lease agreement that was originally set to expire on July 31, 1992. Under the lease agreement, the signatory airlines each have the nonexclusive right to use the facilities, equipment, improvements, and services of the Airports system and to occupy certain premises and facilities thereon. The lease agreement was extended under a series of five subsequent agreements, the last of which was executed in June 1994, and extended the expiration date to June 30, 1997 (hereafter the lease agreement and the five subsequent agreements are collectively referred to as the "lease extension agreement"). The lease extension agreement contains a provision under which the expiration date is automatically extended on a quarterly basis after June 30, 1997, unless terminated by either party upon at least 60 days prior written notice. In October 2007, the DOT and a majority of the signatory airlines executed the first amended lease extension agreement effective January 1, 2008.

Under the first amended lease extension agreement, the Airports system rates and charges are calculated using a rate-making methodology that recovers costs of specific airport system facilities from the signatory airlines that directly use them. The Airports system rates and charges consist of the following: (1) exclusive-use terminal charges based on a cost center residual rate-setting methodology and recovered on a per-square-foot basis, (2) joint-use premises charges (for nonexclusive use of terminal space, except for commuter terminal space) based on a cost center residual rate-setting methodology and recovered on a per enplaning or deplaning passenger basis, (3) commuter terminal charges based on appraisal and recovered on a per enplaning passenger basis, (4) international arrivals building charges based on a cost center residual rate-setting methodology and recovered on a per deplaning international passenger basis, (5) landing fees based on a cost center residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units), and (6) system support charges based on an Airports system residual rate-setting methodology and recovered on a revenue landing landed weight basis (per 1,000-pound units).

Airports — Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). Net excess payments for fiscal 1996 through 2010 have been transferred to the PAUCF.

Airports — Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to $3,633,000 for fiscal 2010.

Airports — System Rates and Charges

Signatory and nonsignatory airlines were assessed the following rates and charges:

- Landing fees, net of aviation fuel tax credits, amounted to $59,262,000 for fiscal 2010, based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports interisland landing fees for signatory airlines are set at 38% of the Airports landing fees for overseas flights for 2010.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $38,544,000 for fiscal 2010. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates, and are recovered based on a computed rate per revenue passenger landing.

- Exclusive use premise charges amounted to $39,576,000 for fiscal 2010, and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $23,032,000 for fiscal 2010.

- Airports system support charges amounted to $762,000 for fiscal 2010. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000-pound units of approved maximum landing weight for each aircraft used in revenue landings. The Airports system interisland support charges for nonsignatory airlines are set at 32% of the Airports system support charges for overseas flights.

Airports — Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers, and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 65 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2010, was approximately $42,142,000.

In fiscal 2006, Airports converted certain past-due amounts from three lessees into promissory notes. The notes bear interest at rates ranging from 0% to 5%, and are due over periods ranging from zero to nine years. The balance of $2,602,000 at June 30, 2010, is due as follows: 2011 — $2,503,000; 2012 — $12,000; 2013 — $12,000; and $75,000 thereafter.

Concession fees revenues from the DFS Group L.P. (DFS), which operates the in-bond (duty free) concession, the Honolulu International Airport retail concession, and the Kona International Airport at Keahole retail concession, accounted for approximately 30% of total concession fees revenues for the fiscal year ended June 30, 2010.

DFS was awarded a 10-year lease agreement for the in-bond concessions with the term commencing on June 1, 2007, and terminating on May 31, 2017. The lease contract provides for a minimum annual guarantee rent, as well as percentage rent on annual gross receipts exceeding certain levels. For the period from June 1, 2007 to May 31, 2012, the minimum annual guarantee rent is $38 million and the percentage rent is as follows: (1) for total concession receipts greater than $122 million, but less than $195 million, 22.5% for on-airport sales, and 18.5% for off-airport sales; (2) for total concession receipts greater than $195 million, but less than $235 million, 30.0% for on-airport sales and 22.5% off-airport sales; (3) for total concession receipts greater than $235 million, but less than $275 million, 30.0% for on-airport sales, and 26.5% for off-airport sales; and (4) for total concession receipts greater than $275 million 30.0% for on-airport sales and off-airport sales. For the period from June 1, 2012 to May 31, 2017, the minimum annual guarantee rent is equal to 85% of the total rent paid for the fifth year of the lease term. Percentage rent during this period is calculated the same as during the first five years of the lease term.

In March 2009, DFS was awarded a five-year lease agreement for the retail concession at the Honolulu International Airport, with the term commencing on April 1, 2009, and terminating on March 14, 2014. Rents were computed as the higher of (1) percentage rent of 20% of gross receipts and (2) minimum annual guarantee rent ($9,950,000 during the last year of the five-year term.)

Harbors — Aloha Tower Complex Development

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer, and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer, and the developer and Harbors entered into a capital improvements, maintenance, operations, and securities agreement ("Operations Agreement"). The Operations Agreement allows Harbors to operate the harbor facilities at Piers 8, 9, and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities, including a marketplace.

The developer later went into bankruptcy. The subsequent operator of the marketplace assumed the obligations of the sublease and the Operations Agreement in March of 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the marketplace construction was substantially completed, several items on Harbors' construction punch list have yet to be completed and are being pursued with the new operator. A settlement has been reached with the new operator to satisfy the punchlist obligations which have a total value of $3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe.

An amendment of the lease executed in fiscal 2006 altered the obligations of the ATDC to reimburse Harbors on an annual basis. For the fiscal year commencing July 1, 2004, the amendment provides that the ATDC shall pay $225,000 as a minimum annual base payment. The amendment further provides that for the fiscal year commencing July 1, 2005, onward, for any year in which the ATDC shall pay for all or any portion of the cost of personnel and other expenses relating to the Hawaii Harbors Project, the parties agree that the minimum annual base payment shall be commensurately reduced by such payments.

In addition to the minimum annual base payment, the ATDC shall also pay an amount equal to 50% of the difference between the total revenues received by the ATDC for such fiscal year and the operating expenses of the ATDC for such fiscal year (equity participation payment) to reduce the amount owed to Harbors for losses in revenues by the ATDC prior to July 1, 2004. The amendment provides for an increase in the equity participation payment as the ATDC's revenues increase.

Harbors — Leasing Operations

Harbors leases land, wharf, and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through September 2058. Those leases generally call for rental increases every 5 to 10 years based on a step-up or independent appraisals of the fair rental value of the leased property.

Revenues for the fiscal year ended June 30, 2010, amounted to $23,858,000 and have been included in rental revenues.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Proprietary Funds as of June 30, 2010 (amounts expressed in thousands):

	Proprietary Funds		
Fiscal Year	**Airports**	**Harbors**	**Total**
2011	$ 107,533	$ 8,467	$ 116,000
2012	101,345	8,280	109,625
2013	91,845	7,981	99,826
2014	87,190	7,824	95,014
2015	53,374	6,460	59,834
2016–2020	113,414	23,317	136,731
2021–2025	11,805	21,094	32,899
2026–2030	6,677	17,389	24,066
2031–2035	2,445	12,457	14,902
2036–2040	1,211	6,952	8,163
2041–2045	-	4,288	4,288
2046–2050	-	2,702	2,702
2051–2055	-	2,685	2,685
2056–2060	-	1,460	1,460
	$ 576,839	$ 131,356	$ 708,195

Net Investment in Direct Financing Leases

Certain leases of state-owned special facilities to parties engaged in airline operations are accounted for as direct financing leases. At June 30, 2010, net direct financing leases of Airports consisted of the following (amounts expressed in thousands):

Total minimum lease payments receivable	$ 55,539
Less amount representing interest	(26,277)
	29,262
Cash with trustee and other	4,487
	$ 33,749

Minimum future rentals to be received under direct financing leases of Airports as of June 30, 2010, consisted of the following (amounts expressed in thousands):

Fiscal Year	
2011	$ 3,716
2012	2,765
2013	2,777
2014	2,778
2015	2,770
2016–2020	13,883
2021–2025	6,110
2026–2028	24,780
	$ 59,579

10. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

Hawaii Housing Finance and Development Corporation

Amounts payable from the State to the HHFDC include approximately $17,163,000 related to a previous agreement to transfer certain land and development rights to the State. Pursuant to this agreement, the State was required to commence 15 annual $2.2 million payments to the HHFDC in December 2004. Effective at that time, the HHFDC recorded the sale of the land and development rights and the net present value of the estimated future cash flows from the State using and imputed interest rate. As of June 30, 2010, amounts due from the State included approximately $17,163,000 of principal, net of approximately $2,930,000 of imputed interest, and approximately $293,000 of accrued interest receivable during the year ended June 30, 2010.

Hawaii Health Systems Corporation

HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2010, the full amount was not yet repaid to the State. The total amount due to the State includes $20,123,000 of cash advances to the Department of Health - Division of Community Hospitals, which was assumed by HHCS at the date of its formation. HHSC also received $10,000,000 in advances from the State. On March 30, 2010, the State agreed to defer payment of the $10,000,000 advance over four years beginning in fiscal 2012.

Hawaii Tourism Authority

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's TAT revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and Budget and Finance, respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253. In accordance with Act 253, the Convention Center Fund was placed within HTA and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

The creation of the Convention Center Fund provided HTA the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the Authority by the CCA. The terms of the payment plan require HTA to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2027. HTA's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2010, the outstanding principal and aggregate interest amounts required to be reimbursed by HTA were $269,370,000 and $179,923,000, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows:

Fiscal Year	Principal	Interest	Total
2011	$ 11,030	$ 15,401	$ 26,431
2012	11,690	14,739	26,429
2013	12,390	14,038	26,428
2014	13,135	13,294	26,429
2015	13,920	12,506	26,426
2016-2020	83,185	48,953	132,138
2021-2025	111,330	20,817	132,147
2026-2027	12,690	40,175	52,865
	$ 269,370	$ 179,923	$ 449,293

Subsequent to June 30, 2005, Budget and Finance informed the HTA that it is required to meet the debt service obligations on the bonds for the period from July 1, 2000 to June 30, 2002. The HTA did not believe it was required to meet these obligations for periods prior to the establishment of the Convention Center Fund and, accordingly, had not recorded this liability in its financial statements. This matter was being contested with Budget and Finance. On August 4, 2011, the State Attorney General opined in favor of Budget and Finance and the HTA increased its liability to the Budget and Finance by $52,865,435, consisting of principal and interest of $12,690,000 and $40,175,435, respectively, at June 30, 2010. The HTA's liability to Budget and Finance is to be primarily funded by an allocated portion of the State's TAT revenue.

Hawaii Hurricane Relief Fund

On June 25, 2002, Act 179 was signed into law by the Governor of the State of Hawaii. The law provides that all interest earned from the principal in the Hurricane Relief Fund be transferred and deposited into the State General Fund each year that the Hurricane Relief Fund remains in existence, beginning with fiscal year 2003. For the year ended June 30, 2010, interest earned and transferred into the State General Fund amounted to $5,613,000.

11. RETIREMENT BENEFITS

Employee Retirement System

Plan Description

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

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

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

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2010, 2009, and 2008, were approximately $398,724,000, $387,748,000, and $377,475,000, respectively. The State contributed 100% of its required contribution for those years. Covered payroll for the fiscal year ended June 30, 2010, was approximately $2,628,369,000.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributes to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees and their dependents. Both the EUTF and the HSTA VEBA plans currently provide medical, prescription drug, dental, vision, chiropractic, and group life insurance benefits. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813. The HSTA VEBA also issues an annual financial report that is available to the public. That report may be obtained by writing to the HSTA VEBA at 1350 South King Street, Suite 230, Honolulu, Hawaii 96814.

In January of 2011 subsequent to June 30, 2010, the State decided to merge the EUTF and the HSTA plans into one healthcare and life insurance plan available to all qualified employees.

The eligibility requirements for retiree health benefits are the same for both plans as follows:

For employees hired before July 1, 1996, the State pays the entire base 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 family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

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

Funding Policy and Annual OPEB Cost

Effective July 1, 2006, the EUTF and HSTA VEBA implemented GASB Statement No. 43 ("GASB 43"), *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as 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 retire healthcare benefits. Accordingly, the State reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year, therefore, an actuarial valuation was performed for July 1, 2009.

The State's base contribution levels to EUTF are established by statutes while the contribution levels to the HSTA VEBA are determined under collective bargaining agreements. In both plans, the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount 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 GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, the net OPEB liability, and the funding status for each of the plans for each of the plans for the fiscal year ended June 30, 2010 (amounts in thousands):

	EUTF	HSTA VEBA
Annual required contribution	$ 685,818	$ 201,246
Interest on net OPEB obligation	22,421	10,264
Adjustment to annual required contribution	(20,392)	(9,331)
Annual OPEB cost	687,847	202,179
Contributions made	(190,931)	(17,602)
Increase in net OPEB obligation	496,916	184,577
Net OPEB obligation — beginning of year	549,774	256,449
Net OPEB obligation — end of year	$ 1,046,690	$ 441,026
Actuarial accrued liability (AAL) July 1, 2009	$ 11,523,301	$ 2,484,179
Funded OPEB plan assets		
Unfunded actuarial accrued liability (UAAL) July 1, 2009	$ 11,523,301	$ 2,484,179
Funded ratio	- %	- %
Covered payroll	1,431,908	682,942
UAAL as percentage of covered payroll	805%	364%

The aggregate net OPEB liability at the end of the year of $1,046,690 and $441,026 for EUTF and HSTA VEBA respectively does not agree to the OPEB liability in the Statement of Net Assets due to reconciling items in the University of Hawaii's OPEB liability.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the preceding year were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation
EUTF	June 30, 2010	$ 687,847	27.8%	$ 1,046,690
	June 30, 2009	439,567	36.1%	549,774
	June 30, 2008	429,195	38.6%	268,791
HSTA VEBA	June 30, 2010	$ 202,179	8.7%	$ 441,026
	June 30, 2009	145,282	10.6%	256,449
	June 30, 2008	138,954	8.9%	126,558

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	EUTF	HSTA VEBA
Actuarial valuation date	July 1, 2009	July 1, 2009
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	30 years (Open)	30 years (Open)
Asset valuation method	N/A	N/A
Actuarial assumptions:		
Investment rate of return	4%	4%
Projected salary increases	3.5%	3.5%
Healthcare inflation rate	10.5% initial	10.5% initial
Medical & Rx Pre-65	10.5% initial 5% ultimate	10.5% initial 5% ultimate
Medical & Rx Post-65	10.25% initial 5% ultimate	10.25% initial 5% ultimate
Dental	6% initial 4 % ultimate	6% initial 4 % ultimate
Vision	4% initial 3% ultimate	4% initial 3% ultimate
Medicare Part B	5% ultimate	5% ultimate

12. COMMITMENTS AND CONTINGENCIES

Commitments

General Obligation Bonds — The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see Note 4). At June 30, 2010, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:	
Highways	$ 34,616
Agriculture	7,283
Natural Resources	4,719
All Other	582
	$ 47,200

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, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2010, accumulated sick leave was approximately $1,543,130,000.

Intergovernmental Expenditures — In accordance with Act 250, SLH of 2002, 45% of revenues generated by the transient accommodations tax are to be distributed to the counties.

Guarantees of Indebtedness — The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $183,500,000 for aquacultural loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects, and rental assistance obligations of Component Units — HHFDC and HPHA. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2010.

Proprietary Fund Type — Enterprise Funds

Construction and Service Contracts

At June 30, 2010, the Enterprise Funds had commitments of approximately $332,690,000 for construction and service contracts.

Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2010, 2009, and 2008, approximated $11,171,000, $1,171,000, and $6,106,000, respectively.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as Part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. The State is to receive proceeds from this settlement in January and April of the subsequent year through 2004 and thereafter on April 15 of each subsequent year. The State has received approximately $50,922,000 during the fiscal year ended June 30, 2010. As of June 30, 2010, the State expects to receive $28,800,000 for the first six months of fiscal 2011.

Office of Hawaiian Affairs

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 re-conveyed title to those lands (collectively, the "Ceded Lands") to the State, and the Ceded Lands are to be held as a public 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. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the OHA to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands 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 all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

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

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, SLH 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20% of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies, paid 20% of "revenues" to OHA on a quarterly basis.

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

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1st Cir.) ("*OHA I*")), claiming that the amount paid to OHA was inadequate and that the State had failed to account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution for damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of moneys it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively , the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

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

On September 12, 2001, the Hawaii Supreme Court concluded *OHA I* by holding in *OHA v. State of Hawaii*, 96 Haw. 388 (2001) that Act 304 was effectively repealed by its own terms, and that there was no judicially manageable standard, i.e., a legal standard, by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. The Supreme Court dismissed *OHA I* for lack of justiciability, that is, that the case was not appropriate for review by the Court, noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution. Immediately thereafter, agencies ceased paying OHA any receipts from the Ceded Lands.

The Legislature took no action during the 2002, 2003, and 2004 legislative sessions to establish a new mechanism for establishing how much OHA was entitled to receive from the Ceded Lands. On January 10, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring 20% of receipts from leases, licenses, and permits indisputably paid for the use of improved or unimproved parcels of Ceded Lands to OHA, if federal or state law did not preclude all or any portion of the receipt from being used to better the conditions of native Hawaiians, and the transfer of all or any portion of the receipt to OHA would not cause the agency to renege on a preexisting pledge, rate covenant, or other preexisting obligation to holders of revenue bonds or other indebtedness of the State or the agency. In Act 34, SLH 2003, the legislature appropriated moneys from the various funds into which the Ceded Lands receipts had been deposited after the decision in OHA I was issued and agencies ceased making payments to OHA, and directed the agencies to pay them to OHA.

OHA continues to pursue claims for a portion of the revenues from the Sources and other Ceded Lands that were made in *OHA I*. On July 21, 2003, OHA filed a new lawsuit, *OHA et al. v. State of Hawaii*, et al., Civil No. 03-1-1505-07 ("*OHA II*"). In September 1996, the Office of the Inspector General of the U.S. Department of Transportation (DOT) issued a report ("IG Report") concluding that payments to OHA between 1992 and 1995 of $28.2 million by the Hawaii Department of Transportation was a diversion of airport revenues in violation of applicable federal law as OHA provided no airport services in return. The Attorney General of Hawaii disagreed with the IG Report's conclusion, stating in November 1996 that the payments to OHA were an operating cost of the Airports and not a diversion of airport revenues. In May 1997, the Acting Administrator of the FAA concurred in writing ("FAA Memorandum") with the IG Report and opposed the Hawaii Attorney General's position. In support of its appeal of the circuit court's *OHA I* decision to the Hawaii Supreme Court, but differing with the original position of the Attorney General, the State noted in its May 1997 amended opening brief that "unless the federal government's position set forth in the IG Report changes, Act 304 prohibits the State from paying OHA airport-related revenues." In its June 1997 reply brief, the State stated that the "DOT Inspector General's determination shows that the federal government is on its way to finding such payments illegal and requiring the State to reimburse past payments of airport-related revenues to OHA." In November 1997, the Department of Transportation and Related Agencies Appropriation Act, 1998, PL 105-66, 1997 HR 2169 ("DOT Appropriation Act") was enacted into federal law. Section 340 of the DOT Appropriation Act (Section 340) essentially provides that in exchange for there being no further payments of airport revenues for claims related to Ceded Lands, any such payments received prior to May 1, 1996 need not be repaid. The Hawaii Attorney General submitted enactment of Section 340 to the Hawaii Supreme Court in December 1997, "for the Court's use" in conjunction with the *OHA I* appeal, whereupon the Court requested the parties to submit supplemental briefs to address whether Section 340 affected the Court's interpretation of Act 304. The State, in its March 1998 supplemental brief, stated, inter alia, that paying OHA a pro rata share of airport moneys violated federal law, and that there was no live, ripe controversy regarding those payments because the DOT Appropriation Act relieved the State and OHA of any obligation to return improper past payments.

Despite the adverse *OHA I* decision, the Plaintiffs in *OHA II* sued the State for alleged breaches of fiduciary duties as purported trustee of the Ceded Lands public trust, alleged violations of Act 304, Chapter 10, and Article XII, Sections 4, 5, and 6 of the Hawaii Constitution, violations of the Contract Clause of the U.S. Constitution, and misrepresentation and nondisclosure, by the following alleged acts (but not limited to these acts): (1) failing to oppose the positions set forth in the FAA Memorandum; (2) resolving its dispute with the FAA by obtaining a forgiveness of the prior $28.2 million payment in exchange for a promise not to make future airport revenue payments to OHA and not to appeal the positions set forth in the FAA Memorandum; (3) breaching the trust duty of impartiality by not opposing the positions set forth in the FAA Memorandum in order to use them as a sword in *OHA I*; (4) failing to timely advise OHA that the State was not going to continue to oppose the positions set forth in the FAA Memorandum or IG Report, and that it was planning to settle with the federal government, in order to provide OHA with a fair opportunity to take measures to step into the State's position to oppose the FAA; and (5) failing to obtain instructions from the Court on how to proceed given the State's conflict between defending the State against OHA in *OHA I*, and having a duty to oppose the positions set forth in the FAA Memorandum.

OHA further alleges that these alleged "breaches, errors, and omissions" were substantial factors that resulted in the passing of Section 340 and the issuance of the Hawaii Supreme Court's opinion in *OHA I*. Plaintiffs claim that, accordingly, the State is liable to OHA for damages including, but not limited to: (1) the damages alleged by OHA in *OHA I*, and (2) amounts payable under Act 304 that have not been paid, including but not limited to, airport landing fees. Plaintiffs also sought declaratory and injunctive relief ordering the State to reinstate Act 304, pay airport-related revenues to OHA from sources other than airport revenues (and enjoining the State and its agents, employees, and officials from opposing any of the above), and sought appointment of an independent trustee to replace the State as trustee of the native Hawaiian public trust with respect to matters relating to reinstatement of Act 304 and the payment of airport-related revenues to OHA from sources other than airport revenues. On December 26, 2003, the court granted the State's motion to dismiss OHA's complaint in *OHA II*. The court entered a final judgment on May 19, 2004, encompassing the order dismissing the complaint and several procedural orders. On June 8, 2004, OHA filed a notice of appeal from the portions of the May 19, 2004 judgment dismissing its complaint in *OHA II*, denying leave to amend the complaint and denying a request for bifurcation of OHA's claims for liability and damages. The Hawaii Supreme Court affirmed the circuit court's order dismissing OHA's complaint in a decision issued September 9, 2005; granted OHA's motion for reconsideration in an order filed on December 23, 2005; and affirmed the circuit court's final judgment again in an opinion entered on April 28, 2006.

On January 17, 2008, OHA and the Governor signed a settlement agreement to finally and completely resolve and settle any and all claims and disputes relating to OHA's portion of income and proceeds from the lands of the Ceded Lands public trust under article XII, sections 4 and 6 of the Hawaii Constitution between November 7, 1978 and July 1, 2008, and to fix prospectively, the minimum amount of income and proceeds from the lands of the Ceded Lands public trust, OHA is to receive per fiscal year, under those same provisions of the Hawaii Constitution, at $15.1 million. The settlement was contingent on passage of a bill prepared jointly by OHA and the Attorney General without material changes, or, if the bill was changed, with the written approval of OHA and the Governor. The Legislature did not pass two bills for such purpose during its 2008 regular session, and directed instead that OHA and the Attorney General resume negotiations on the payment to be made by the State to resolve the dispute with OHA concerning the sum OHA should have received from November 7, 1978 to June 30, 2008, pursuant to article XII, sections 4 and 6 of the Hawaii Constitution.

On June 2, 2010, OHA filed a petition for writ of mandamus in the Hawaii Supreme Court which asked the court to compel the members of the Twenty-Sixth Legislature (which will convene in January 2011) to enact legislation to pay OHA what OHA believes represents unpaid portions of the income and proceeds derived from the ceded lands between 1978 or 1980 through 2008, i.e., approximated at $200,000,000. The court entered an order denying the petition on August 18, 2010.

In November 1994, OHA and four individuals also filed complaints for declaratory and injunctive relief on November 4, 1994, and November 9, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands and extinguishing any rights Hawaiians may have in Ceded Lands that may be alienated. Alternatively, OHA sought a declaration that the amounts paid to OHA by the Housing Finance and Development Corporation (the "HFDC", since succeeded by the HHFDC, as described below) and the State for Ceded Lands that the HFDC planned to use to develop and sell housing units pursuant to Act 318, SLH 1992, were insufficient. Act 318 established a separate process for valuing the Ceded Lands the HFDC used for its two housing developments at Kealakehe and Lahaina, and quantifying the amounts of income and proceeds from the Ceded Lands that the HFDC and State were required to pay to OHA for conveying and using the parcels for the Corporation's two projects.

In December 2002, following a trial on the issues, the trial court confirmed the State's authority to sell Ceded Lands, denied the declaratory ruling that the sale of Ceded Lands did not directly or indirectly release or limit Hawaiians' claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and the HFDC's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court.

On January 31, 2008, the Hawaii Supreme Court issued an opinion vacating the circuit court's judgment in favor of the State and HFDC, and "remand[ed] the case to the circuit court with instructions to issue an order granting the plaintiffs' request for an injunction against the defendants from selling or otherwise transferring to third parties (1) the parcel of ceded land on Maui and (2) any ceded lands from the public lands trust until the claims of the native Hawaiians to the ceded lands has [sic] been resolved." In accordance with the instructions of the Hawaii Supreme Court, the circuit court issued its order on June 4, 2008 granting plaintiffs' request for such injunction. Seeking a reversal of the January 31, 2008, decision of the Hawaii

Supreme Court, the State filed a Petition for Writ of Certiorari on April 29, 2008, with the United States Supreme Court. The United States Supreme Court granted the petition for certiorari, and on March 31, 2009, unanimously reversed the Hawaii Supreme Court's decision, and remanded the case to the Hawaii Supreme Court for further proceedings not inconsistent with its opinion. The United States Supreme Court concluded that the State holds "absolute fee" title to the lands conveyed to it by the United States at statehood; that federal law did not prevent the Legislature from deciding, as it had, to sell a portion of the Ceded Lands for the HFDC's two housing developments; and that the Supreme Court of Hawaii erred in reading the federal Apology Resolution "as recognizing claims inconsistent with the title held in 'absolute fee' by the United States and conveyed to the State of Hawaii at statehood." By orders filed on May 15, 2009, the Hawaii Supreme Court re-opened the appeal in that court "for further consideration in light of the United States Supreme Court's mandate."

On July 15, 2009 all but one of the plaintiffs filed a motion to dismiss their appeal, and all of their claims without prejudice, and the Attorney General a motion to dismiss all remaining claims, namely the claims of the plaintiff who did not join the rest of the plaintiffs' motion to dismiss.

By a judgment on appeal filed on December 14, 2009 that referred to an opinion filed on October 27, 2009, the Hawaii Supreme Court vacated the January 31, 2003 judgment, and remanded the case to the circuit court for entry of a judgment dismissing plaintiff Osorio's claims against the State without prejudice. In the Circuit Court, the Attorney General filed a motion to dismiss plaintiff Osorio's claims without prejudice, and a motion to dissolve the injunction entered on June 4, 2008. Two orders were filled in the circuit court on March 9, 2010, one dismissing plaintiff Osorio's claims without prejudice, and the other dissolving the June 4, 2008 injunction.

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

The HFDC and the HHA were merged into the HCDCH after the suits against them described above were filed. HCDCH subsequently was bifurcated into the HHFDC and the HPHA.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Department of Hawaiian Home Lands

Individual Claims

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the Legislature with nonbinding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by November 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999, if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

In 1997, the Legislature declared its intent to postpone acting upon the panel's recommendations until all claims had been reviewed and forwarded to it. Legislation to allow the Panel and the Legislature until September 30, 2000, to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunsetted on December 31, 1999. As of September 30, 1999, the Panel had not reviewed claims from 1,376 claimants, and all but the claims of two claimants had not been acted upon by the Legislature.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima, et al. v. Cayetano,* Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999, and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special, and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 99-4771-12VSM (1st Cir.) *("Kalima I").* Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.,* Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.,* Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.,* Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.,* Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.,* Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits. Plaintiff Hanohano, Silva, Wilhelm, and Williamson have since stipulated to the dismissal of their actions without prejudice.

On March 30, 2000, the three named-plaintiffs in *Kalima I* filed a second class action lawsuit in the State circuit court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and the State Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima, et al. v. State of Hawaii, et al.,* Civil No. 00-1-1041-03 (1st Cir.) *("Kalima II").* All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II.*

On August 30, 2000, the circuit court entered an order in *Kalima I* granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the circuit court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and nocause of action defenses, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000, order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, the Supreme Court dismissed that appeal for lack of appellate jurisdiction. The State thereafter secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided could be reviewed by the Supreme Court prior to trail. By an opinion issued on June 30, 2006, the Supreme Court affirmed the plaintiffs were entitled to pursue their claims for damages under HRS Chapter 674, reversed the circuit court's determination that the plaintiffs had a right to sue under HRS Chapter 661, and remanded the case to the back to trial court for further proceedings.

The plaintiffs have since filed a first and second amended complaint to add 11 plaintiffs, and to divide the class into nine subclasses to include those with claims for damages for injuries allegedly suffered by (1) allegedly waiting too long to receive a homestead, (2) being barred from or delayed in receiving a homestead by allegedly *ultra vires* rules, (3) receiving allegedly uninhabitable homesteads, (4) allegedly lost applications, (5) allegedly defectively constructed homes or infrastructure, (6) allegedly being prevented from or delayed in succeeding to a parent's or spouse's homestead, (7) the manner in which the loans were administered, (8) the manner in which the leases were administered, and (9) other allegedly wrongful conduct. The court granted the plaintiffs' motion to try the waiting subclass' claims separately and first.

By orders entered on August 6, and August 25, 2009, respectively, two new waiting list subclass representative plaintiffs were added, and the claims of one of the two previously named waiting list subclass representatives were dismissed. Trial on the liability portion of the waiting list subclass' claims began on August 4, 2009 and on November 3, 2009 the circuit judge for the case ruled that the State committed various breaches of trust between 1959 and 1988, and further proceedings were necessary to determine the amount of out-of-pocket damages the waiting list subclass members sustained, if any, as a result of those breaches. The State's motion for permission to take an immediate appeal from the circuit court's rulings before a trial on the damages portion of the waiting list subclass' claim began, was denied. Trial to determine whether, and to what extent, if any, subclass members sustained out-of-pocket damages is yet to be scheduled.

Nelson et al., v. Hawaiian Homes Commission

Nelson et al., v. Hawaiian Homes Commission, et al., Civil No. 07-1-1663-08 BIA (1st Cir.) ("*Nelson*"), was filed on September 6, 2007, but not served. Instead, plaintiffs filed a First Amended Complaint on October 19, 2007, to which, with the plaintiffs' permission, the defendants State of Hawaii and Georgina Kawamura in her official capacity as the State's Director of Budget and Finance filed an answer on December 31, 2007, and the remaining defendants, the DHHL and the Hawaiian Homes Commission and its members, filed an answer on February 29, 2008.

The *Nelson* plaintiffs allege all defendants breached their duties under article XII, sections 1 and 2 of the Hawaii Constitution by not providing sufficient funds to DHHL to place as many beneficiaries on residential, agricultural, and pastoral homesteads within a reasonable period of time, and provide a fully functioning farm, ranch, and aquaculture support program to maximize utilization of the homestead lands. They also allege that the Hawaiian Homes Commission and its members are in breach of the Hawaiian Home Lands trust for failing to obtain sufficient funds from the Legislature, and otherwise enforcing the provisions of article XII, sections 1 and 2 of the Hawaii Constitution, including filing suit against the State. Further, they allege that DHHL and the Hawaiian Homes Commission and its members have violated the Hawaiian Homes Commission Act (the “HHC Act”) by leasing Hawaiian home lands solely to generate revenue and for commercial developments that are unrelated to actual homesteading programs, and without adhering to the requirements of section 207(a) of the HHC Act.

As beneficiaries of the Hawaiian Home Lands trust and the HHC Act, the *Nelson* plaintiffs ask the court to issue a mandatory injunction requiring DHHL and the Hawaiian Homes Commission and its members to seek, and the State to provide, sufficient funds for DHHL to place as many beneficiaries on the land within a reasonable period of time. On January 21, 2009, the court granted the defendants’ motion for entry of summary judgment rejecting all claims that are based on the theory that the Legislature, the State, or any State agency or employee, is required to appropriate, request, or otherwise provide or secure particular amounts of money for the DHHL and its programs now and in the future. The court concluded that the political question doctrine barred it from deciding those claims because initial policy determinations that the court lacked authority to make, were needed to resolve the parties’ dispute over the definition and determination of “sufficient sums” as that term is used in article XII, section 1 of the Hawaii Constitution.

The plaintiffs also asked the court to declare that DHHL may not lease Hawaiian Home Lands trust property solely to generate revenue, and that DHHL’s lease of the Honokohau Makai property is invalid, and to enjoin any further leases of trust lands for commercial developments unrelated to homesteading programs. By a stipulation filed on August 24, 2009, the claim for declaratory and injunctive relief against the DHHL’s leasing of trust property solely to generate revenue was dismissed without prejudice, and the claim to invalidate the Honokohau Makai property lease was dismissed with prejudice.

On September 23, 2009, a final judgment was filed in the circuit court. Plaintiffs filed their notice of appeal from (1) the January 21, 2009 order granting the State’s motion for summary judgment rejecting plaintiffs’ claims that the Legislature, State or any State agency or employee is required to provide or secure particular amounts of money for DHHL and its programs, (2) the January 22, 2009 order granting the DHHL’s and Commission’s joinder in the State’s motion, and (3) the March 17, 2009 order denying the plaintiffs’ motion for reconsideration. By an opinion filed on January 12, 2011, the Intermediate Court of Appeals, by an opinion by J. Foley with J. Nakamura concurring separately, concluded that the political question doctrine did not preclude the courts from deciding the plaintiffs’ claims, vacated the circuit court judgment and remanded the case to the circuit court for further proceedings. The State and Director of Finance filed an application for writ of certiorari in the Hawaii Supreme Court to reverse Intermediate Court of Appeals’ judgment on appeal, and affirm the circuit court’s final judgment, on May 4, 2011. The application was accepted and oral argument will be heard by the Supreme Court on October 6, 2011.

The State intends to defend vigorously against the claims against the State in all of the remaining Individual Claims Cases and in *Nelson.* The State is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of the plaintiffs’ claims in the

Individual Claims Cases, and some of the plaintiffs' claims in *Nelson*, in the respective plaintiffs' favor, could have a material adverse effect on the State's financial condition.

Employees' Retirement System

In *Kaho'ohanohano, et al. v. State of Hawaii*, Civil No. 02-1-1001-04 (GWBC) (1st Cir.), the plaintiffs challenged certain legislation enacted by the State Legislature in 1999 ("Act 100"). Act 100 authorized the State to apply the Employees' Retirement System's ("ERS" or the "System") actuarial investment earnings in excess of 10% for fiscal years 1997 and 1998 toward the State and county employees' annual contributions to the pension accumulation of the ERS fund. The plaintiffs asked the court to declare Act 100 unconstitutional, to enjoin the State from taking future actions inconsistent with Article XVI, Section 2 of the Hawaii Constitution, and to require the State to pay damages to the ERS in the amount of $346,900,000 plus lost earnings and pre- and post-judgment interest, costs, and attorneys' fees.

The plaintiffs were allowed to amend their complaint to add two state civil service employees as plaintiffs, and their motion to certify a class, consisting of all current and former public employees other than members of the legislature, judges and attorneys in the Department of the Attorney General, was granted. Motions made by the trustees of the ERS to intervene as plaintiffs and by the City and County of Honolulu to intervene as a defendant were granted. The Court made the counties of Hawaii, Maui, and Kauai intervener defendants.

The plaintiffs filed two motions for partial summary judgment (as to liability only), and the State filed a motion to dismiss and a motion for summary judgment against the claims of the plaintiffs as well as the ERS' trustees. The State's motion to dismiss was denied in an order filed on May 16, 2003. An order granting summary judgment in favor of the State and against all of the claims of the plaintiffs and ERS trustees, and denying the plaintiffs' two motions, and a final judgment were entered on June 24, 2003. The county intervener defendants filed a motion to alter or amend the order and judgment on June 27, 2003. By court rule, the motion was deemed denied on September 25, 2003, and notices of appeal from the June 24, 2003 order and judgment were filed by plaintiffs and the ERS trustees on October 27, 2003. The State cross-appealed the order denying its motion to dismiss on November 7, 2003. On December 10, 2003, the circuit court entered an order granting the county intervener defendants motion to alter or amend the June 24, 2003 order and judgment, and filed an amended summary judgment order and an amended final judgment. The plaintiffs and the ERS trustees filed notices of appeal from the amended order and amended judgment on December 23, 2003. The appeals from the amended order and amended judgment were dismissed on April 30, 2004.

In a 3-2 decision filed on July 23, 2007, the Hawaii Supreme Court vacated the June 24, 2003 order and judgment, and remanded the case to the circuit court with instructions to (1) enter an order dismissing the plaintiffs' claims for lack of jurisdiction, (2) enter summary judgment against the State and in favor of the ERS' trustees on the trustees' declaratory judgment claim that Act 100 violated article XVI, section 2 of the Hawaii Constitution, and (3) dispose of the ERS' trustees' other claims for declaratory relief appropriately. In concluding that Act 100 was unconstitutional, the majority held that "necessarily implied in article XVI, section 2 [of the Hawaii Constitution] prohibiting impairment of accrued benefits is the protection of the sources of those benefits;…Act 100 retroactively divested the ERS of $346,900,000 of employer contributions for 1997, 1998, and 1999, thereby eliminating the sources used to fund constitutionally protected 'accrued benefits'; and…Act 100 undermined the retirement systems' continuing security and integrity." "[U]nder the circumstances of th[e] case," the court declined to issue the prospective injunction the ERS' trustees sought. (In their prayer for relief, the ERS' trustees asked that "the State and its officers and agents [be enjoined] from any further skimming the ERS' investment earnings and from taking any other or further action that (a) will diminish, impair or otherwise obligate the ERS' actuarial investment earnings; or (b) will reduce the Employers' periodic contributions as determined by the Board's actuary in accordance with the Chapter 88 and sound actuarial practice; or (c) otherwise will impair the contractual rights of the members.") The case is again before the circuit court to fashion the order the Supreme Court directed the circuit court to enter, and, if necessary, to address the ERS' trustees' remaining declaratory judgment claims. The State is unable to determine the outcome at this time.

Hawaii Employer-Union Health Benefits Trust Fund

In June 2006, certain retired public employees ("Plaintiffs") filed a purported class action in the First Circuit Court, State of Hawaii, against the State, all of the counties of the State, the Hawaii Employer-Union Health Benefits Trust Fund (the "EUTF"), and the EUTF Board of Trustees (the "EUTF Board") (collectively, the "Defendants"). Plaintiffs' First Amended Complaint alleges that Defendants have violated constitutional, contractual and statutory rights of Plaintiffs under article XVI, section 2 of the Hawaii Constitution and HRS Chapters 87 and 87A by not providing health care benefits to retirees and their dependents that are equivalent to those provided to active employees and their dependents. Plaintiffs' action claims that Defendants' conduct constitutes a breach of contract and negligence. Plaintiffs' action seeks declaratory and injunctive relief, damages, prejudgment interest, and attorneys' fees and costs. Under the doctrine of primary jurisdiction, Plaintiffs' action was held in abeyance so that the EUTF Board could decide certain issues raised by Plaintiffs' claims.

In May 2007, Plaintiffs filed a petition with the EUTF Board seeking a declaratory ruling as to whether, among other things, the Hawaii Constitution and HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are inferior (not equivalent) to those provided to active employees and their dependents. In September 2007, the EUTF Board held that (a) it did not have jurisdiction to decide the constitutional issues raised by Plaintiffs; (b) HRS Chapter 87A permitted the EUTF to provide health benefits to retirees and their dependents that are different from and/or inferior to those provided to active employees and their dependents; and (c) the EUTF health benefit plans from July 1, 2003, to present complied with the requirements of HRS Chapter 87A. Under HRS Section 91-14, Plaintiffs appealed that decision to the First Circuit Court. By order dated July 23, 2008, the circuit court reversed the decision of the EUTF Board. The circuit court's order held that (a) "accrued benefits" under article XVI, section 2 of the Hawaii Constitution, that may not be diminished or impaired, include retiree health benefits; (b) retiree health benefits established by the enactment of HRS Chapters 87 and 87A are protected and vested once accrued; (c) the State Legislature is not precluded from changing health benefits for prospective employees; (d) HRS Section 87A-23 requires retirees and their dependents to be provided with health benefits plans that provide benefits reasonably approximate to those provided to active employees and their dependents; and (e) certain of the health benefits provided to retirees and their dependents by the EUTF are not reasonably approximate to those provided to active employees and their dependents. The State is unable to predict with reasonable certainty the magnitude of its potential liability, if any, with respect to this matter. The State appealed the adverse decision of the Hawaii circuit court. The Hawaii Supreme court heard oral argument on the appeal in November 2009 and the parties are awaiting a decision.

Department of Education

Consolidated class action cases have been brought against the State Department of Education (DOE) on behalf of substitute teachers in accordance with the rate provided in the Hawaii Revised Statutes from July 1, 1996 to June 30, 2005. This case was decided by the Hawaii Intermediate Court of Appeals on October 30,

2009. The court held that the State had underpaid its substitute teachers during the period July 1, 1996 to June 30, 2005. The Hawaii Supreme Court denied the State's application for a writ of certiorari. The case will return to circuit court for determination of damages and attorney's fees. The State is unable to predict with reasonable certainty the magnitude of its potential liability. A similar and somewhat related class action by part-time teachers is on hold pending the resolution of the substitute teachers' appeals.

13. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is $100,000,000, except for flood and earthquake which individually is a $100,000,000 aggregate loss and terrorism which is $50,000,000 per occurrence and a $50,000 deductible.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $10,000,000.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Medical Insurance

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage, and employee benefits. This policy covers losses up to a limit of $25,000,000 per occurrence and $29,000,000 in aggregate.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2010, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statement of net assets as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30, 2010 (amounts expressed in thousands):

	2010	2009
Unpaid losses and loss adjustment costs — beginning of the fiscal year	$ 150,761	$ 155,303
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	34,332	27,534
Decrease in provision for insured events of prior fiscal years	(1,562)	(5,977)
Total incurred losses and loss adjustment costs	32,770	21,557
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(15,190)	(5,028)
Losses and loss adjustment costs attributable to insured events of prior fiscal years	(16,629)	(21,071)
Total payments	(31,819)	(26,099)
Unpaid losses and loss adjustment costs — end of the fiscal year	$ 151,712	$ 150,761

14. SUBSEQUENT EVENTS

Auction Rate Securities Settlement

On November 23, 2010, the State and Citigroup Global Markets Inc. (Citi) reached an agreement whereby in June 2015, the State will have the option to require Citi to purchase some or all of the State's remaining investments in auction rate securities. The agreement also provides that starting July 2012, the State will have the ability to obtain interim liquidity on its auction rate securities portfolio of up to $150 million worth of securities, at market value, with the difference between that market value and par paid by Citi in July 2015.

Department of Transportation — Airports Division

On July 1, 2011, Standard & Poor's (S&P's) Ratings Services upgraded the rating of Airports Division Revenue Bonds to A from A-. The ratings upgrade was based on S&P's positive analysis of the airport system's strong financial liquidity and increased certainty over the scope and size of its capital improvement plans. S&P also cited a stable future outlook for the upgrade.

On September 14, 2011, the State issued $300,885,000 of Airports System Revenue Bonds Refunding Series 2011. The Refunding Bond proceeds were used to advance refund outstanding Airport System Revenue Bonds previously issued. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the previously issued Airports System Revenue Bonds.

Department of Transportation — Harbors Division

On November 17, 2010, the State issued $164,300,000 and $37,110,000 of Harbors Revenue Bonds Series 2010A and Harbors Revenue Bonds Series 2010B, respectively. The Series 2010A Bonds were issued for the purpose of financing the cost of certain capital improvements to the State's Harbors System. The Series 2010B Bonds was issued to refund certain outstanding Harbor System Revenue Bonds.

15. RESTATEMENTS

Subsequent to the issuance of the State's fiscal year 2009 financial statements, management identified the following misstatements. As a result, June 30, 2009 net assets in the Proprietary Funds, Component Units, and Government Wide financial statements have been restated from amounts previously reported.

Proprietary Funds:

Management has restated the 2009 net assets of the Proprietary Fund of the EUTF to include certain activity related to capital assets, operating revenues and expenses and related assets and liabilities of the Trust Fund. Such amounts which primarily relate to Proprietary Fund activities of the EUTF had previously been included in the Fiduciary Fund. As a result, the June 30, 2009 net assets of Proprietary Funds were restated. The effect of this restatement is as follows (amounts expressed in thousands):

Statement of Revenues, Expenditures, and Changes in Net Assets

	Proprietary Funds (in thousands)	
	Nonmajor Proprietary Funds	Total Proprietary Funds
Net asset — June 30, 2009 — as previously reported	$ 437,214	$ 2,907,211
Adjustments:		
Prepaid expenses	13	13
Capital assets	2,636	2,636
Vouchers and contracts payable	(135)	(135)
Accrued wages and employees benefits payable	(193)	(193)
Compensated absences	(74)	(74)
Total adjustments	2,247	2,247
Net assets — June 30, 2009 — as restated	$ 439,461	$ 2,909,458

Component Units:

Management has restated the 2009 HCDA financial statements to correct for excess depreciation expense in the amount of $503,000 that had been recorded for land improvements whose useful lives ended as of June 30, 2008. As a result, net assets for the Components Units have been increased as of June 30, 2009. The effect of this restatement is as follows (amounts expressed in thousands):

Statement of Revenues, Expenditures, and Changes in Net Assets

	Component Units (in thousands)	
	Hawaii Community Development Authority	Total Component Units
Net assets — June 30, 2009	$ 183,537	$ 2,962,030
Adjustments	503	503
Net assets — June 30, 2009 as restated	$ 184,040	$ 2,962,533

The effect of these corrections on net assets of the Government-Wide financial statements is as follows (amounts expressed in thousands):

Statement of Activities	Primary Government (in thousands)			
	Governmental Activities	Business-Type Activities	Total	Component Units
Net assets — June 30, 2009 — as previously reported	$ 3,467,632	$ 2,907,211	$ 6,374,843	$ 2,962,030
Adjustments:				
EUTF	-	2,247	2,247	-
HCDA	-	-	-	503
Total adjustments	-	2,247	2,247	503
Net assets — June 30, 2009 — as restated	$ 3,467,632	$ 2,909,458	$ 6,377,090	$ 2,962,533

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

STATE OF HAWAII

GENERAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
General excise tax	$ 2,559,372	$ 2,350,845	$ 2,316,434	$ (34,411)
Net income tax:				
Corporations	70,469	50,103	59,186	9,083
Individuals	1,496,161	1,264,796	1,527,619	262,823
Inheritance and estate tax	-	-	-	-
Liquor permits and tax	45,973	49,446	44,074	(5,372)
Public service companies tax	143,775	124,519	157,661	33,142
Tobacco tax	94,278	94,253	85,503	(8,750)
Tax on premiums of insurance companies	92,500	99,000	104,667	5,667
Franchise tax (banks and other financial institutions)	14,401	24,318	18,666	(5,652)
Transient accommodations tax	12,253	38,174	31,696	(6,478)
Other taxes, primarily conveyances tax	8,504	12,460	17,918	5,458
Total taxes	4,537,686	4,107,914	4,363,424	255,510
Non-taxes:				
Interest and investment income	49,843	23,077	2,411	(20,666)
Charges for current services	217,477	216,887	187,212	(29,675)
Intergovernmental	4,727	4,223	5,852	1,629
Rentals	1,998	376	392	16
Fines, forfeitures, and penalties	24,339	24,248	23,304	(944)
Licenses and fees	1,006	1,044	1,430	386
Revenues from private sources	2,805	1,610	15,195	13,585
Debt service requirements	35,872	38,913	39,347	434
Other	174,946	177,915	173,132	(4,783)
Total non-taxes	513,013	488,293	448,275	(40,018)
Total revenues	5,050,699	4,596,207	4,811,699	215,492
EXPENDITURES:				
General government	1,841,925	1,876,264	1,661,461	214,803
Public safety	247,538	249,484	230,356	19,128
Highways	-	-	-	-
Conservation of natural resources	29,208	29,188	24,708	4,480
Health	408,742	408,742	382,987	25,755
Hospitals	96,761	96,761	96,761	-
Welfare	695,793	748,284	725,729	22,555
Lower education	1,453,081	1,453,017	1,301,270	151,747
Higher education	422,591	422,661	370,451	52,210
Other education	5,209	5,209	4,708	501
Culture and recreation	39,767	39,118	34,806	4,312
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	22,941	23,487	20,360	3,127
Housing	19,621	19,621	19,260	361
Social security and pension contributions	-	-	-	-
Other	-	9,985	5,797	4,188
Total expenditures	5,283,177	5,381,821	4,878,654	503,167
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(232,478)	(785,614)	(66,955)	718,659
OTHER FINANCING SOURCES — Transfers in	21,538	23,785	4,902	(18,883)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	$ (210,940)	$ (761,829)	$ (62,053)	$ 699,776

STATE OF HAWAII

MED-QUEST SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:				
Taxes:				
Liquid fuel tax:				
Highways	$ -	$ -	$ -	$ -
Boating	-	-	-	-
Airports	-	-	-	-
Vehicle registration fee tax	-	-	-	-
State vehicle weight tax	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-
Employment and training fund assessment	-	-	-	-
General excise tax	-	-	-	-
Tobacco tax	-	-	-	-
Conveyances tax	-	-	-	-
Environmental response tax	-	-	-	-
Hospital and nursing facility tax	-	-	-	-
Transient accommodations tax	-	-	-	-
Franchise tax	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-
Total taxes	-	-	-	-
Non-taxes:				
Interest and investment income	-	-	-	-
Charges for current services	-	-	-	-
Intergovernmental	971,641	971,641	965,634	(6,007)
Rentals	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Licenses and fees	-	-	-	-
Revenues from private sources	-	-	-	-
Other	32,000	32,000	30,908	(1,092)
Total non-taxes	1,003,641	1,003,641	996,542	(7,099)
Total revenues	1,003,641	1,003,641	996,542	(7,099)
EXPENDITURES:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways	-	-	-	-
Conservation of natural resources	-	-	-	-
Health	-	-	-	-
Hospitals	-	-	-	-
Welfare	1,027,801	1,027,801	987,639	40,162
Lower education	-	-	-	-
Higher education	-	-	-	-
Other education	-	-	-	-
Culture and recreation	-	-	-	-
Urban redevelopment and housing	-	-	-	-
Economic development and assistance	-	-	-	-
Airports	-	-	-	-
Water transportation and terminals	-	-	-	-
Housing	-	-	-	-
Other	-	-	-	-
Total expenditures	1,027,801	1,027,801	987,639	40,162
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (24,160)	$ (24,160)	$ 8,903	$ 33,063

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION — BUDGETARY CONTROL FOR THE YEAR ENDED JUNE 30, 2010

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 2007 (Act 213, SLH of 2007) and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2007 — 2009 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying General Fund Schedule of Revenues and Expenditures — Budget and Actual (Budgetary Basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. During the fiscal year ended June 30, 2010, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund are presented in the General Fund statement of revenues and expenditures — budget and actual (budgetary basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase order and contract obligations (basis difference), which is a departure from GAAP.

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2010
(Amounts in thousands)

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2010, follows (amounts expressed in thousands):

	General Fund	Med-Quest Special Revenue Fund
Excess of revenues and other sources over expenditures — actual (budgetary basis)	$ (66,955)	$ 8,903
Transfers	4,902	(5,051)
Excess of revenues and over expenditures — actual (budgetary basis)	(62,053)	3,852
Reserve for encumbrances at fiscal year end *	240,706	74,144
Expenditures for liquidation of prior fiscal year encumbrances	(234,950)	(59,282)
Revenues and expenditures for unbudgeted programs and capital projects accounts — net	(8,231)	-
Tax refunds payable	(168,191)	-
Accrued liabilities	32,846	(159,292)
Accrued revenues	47,787	157,486
Net change in fund balance — GAAP basis	$ (152,086)	$ 16,908

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

SCHEDULES OF FUNDING PROGRESS

(Amounts in millions)

Primary Government:

EUTF

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability <u>(AAL)</u>	Unfunded Actuarial Accrued Liability <u>(UAAL)</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
July 1, 2007	$-	$7,192	$7,192	-%	$1,782	403.6%
July 1, 2009	-	11,523	11,523	-	1,432	804.8

HSTA-VEBA

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued Liability <u>(AAL)</u>	Unfunded Actuarial Accrued Liability <u>(UAAL)</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
July 1, 2007	$-	$1,579	$1,579	-%	$680	234.8%
July 1, 2009	-	2,484	2,484	-	683	363.7

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. Certain Special Revenue Funds are presented separately in the accompanying combining financial statements, with the remainder grouped as a single entity. The Special Revenue Funds are as follows:

Highways — Accounts for programs related to maintaining and operating land transportation facilities.

Natural Resources — Accounts for programs related to the conservation, development, and utilization of agriculture, aquaculture, water, land, and other natural resources of the State.

Health — Accounts for programs related to mental health, nutrition services, communicable disease, and for other public health services.

Human Services — Accounts for social service programs, which include public welfare, eligibility and disability determination, and housing assistance.

Education — Accounts for programs related to instructional education, school food services, and student driver education.

Economic Development — Accounts for programs related to the development and promotion of industry and international commerce, energy development and management, economic research and analysis, and the utilization of resources.

Employment — Accounts for programs related to employment and training, disability compensation, placement services, and occupational safety and health.

Regulatory — Accounts for programs related to consumer protection, business registration, and cable television regulation.

Hawaiian Programs — Accounts for programs related to the betterment of the conditions of native Hawaiians.

Administrative Support — Accounts for programs of certain administrative agencies.

All Other — Accounts for programs related to water recreation, inmate stores, and driver training and education.

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds serviced by the General Fund and general obligation bonds and revenue bonds serviced by the Special Revenue Funds.

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
ASSETS							
CASH AND CASH EQUIVALENTS	$ 78,044	$ 47,269	$ 67,626	$ 28,531	$ 70,005	$ 9,850	$ 14,721
RECEIVABLES:							
Accrued interest	2,468	353	543	9	257	242	226
Notes and loans — net	-	17,137	-	-	-	460	-
Federal government	-	-	-	64,960	-	-	-
Other - Net	26,417	-	-	-	-	-	-
DUE FROM OTHER FUNDS	-	-	-	-	-	-	-
INVESTMENTS	65,689	46,356	87,161	470	21,968	12,275	17,317
TOTAL	$ 172,618	$ 111,115	$ 155,330	$ 93,970	$ 92,230	$ 22,827	$ 32,264
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Vouchers and contracts payable	$ 20,068	$ 2,651	$ 23,148	$ 8,618	$ 16,695	$ 2,268	$ 503
Other accrued liabilities	3,352	2,183	3,556	317	11,860	1,032	-
Due to other funds	-	-	-	58,000	-	-	-
Payable from restricted assets — matured bonds and interest payable	-	-	-	-	-	-	-
Total liabilities	23,420	4,834	26,704	66,935	28,555	3,300	503
FUND BALANCES:							
Reserved for:							
Continuing appropriations	181,731	43,914	90,588	54,216	34,674	32,961	2,567
Receivables and advances	-	16,071	-	-	-	10	-
Unreserved for Special Revenue Funds:							
Designated for future expenditures	-	38,573	-	-	750	-	-
Undesignated	(32,533)	7,723	38,038	(27,181)	28,251	(13,444)	29,194
Total fund balances	149,198	106,281	128,626	27,035	63,675	19,527	31,761
TOTAL	$ 172,618	$ 111,115	$ 155,330	$ 93,970	$ 92,230	$ 22,827	$ 32,264

	Special Revenue Funds						
	Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Debt Service Fund	Total Nonmajor Governmental Funds
	$ 25,498	$ 99,273	$ 94,503	$ 31,285	$ 566,605	$ 382	$ 566,987
	422	1,794	637	210	7,161	-	7,161
	-	58,867	-	-	76,464	-	76,464
	-	-	-	-	64,960	-	64,960
	-	-	-	-	26,417		26,417
	-	-	-	-	-	118	118
	23,489	86,106	75,412	12,785	449,028	-	449,028
	$ 49,409	$ 246,040	$ 170,552	$ 44,280	$ 1,190,635	$ 500	$ 1,191,135
	$ 477	$ 6,860	$ 7,008	$ 9,423	$ 97,719	$ -	$ 97,719
	2,086	713	2,633	1,233	28,965	-	28,965
	-	-	-	1,567	59,567	-	59,567
	-	-	-	-	-	382	382
	2,563	7,573	9,641	12,223	186,251	382	186,633
	1,785	68,782	30,794	37,678	579,690	68	579,758
	-	59,002	-	-	75,083	-	75,083
	-	36,105	27,596	-	103,024	-	103,024
	45,061	74,578	102,521	(5,621)	246,587	50	246,637
	46,846	238,467	160,911	32,057	1,004,384	118	1,004,502
	$ 49,409	$ 246,040	$ 170,552	$ 44,280	$ 1,190,635	$ 500	$ 1,191,135

STATE OF HAWAII

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Special Revenue Funds						
	Highways	Natural Resources	Health	Human Services	Education	Economic Development	Employment
REVENUES:							
Taxes:							
Franchise tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other tax revenue	-	12,228	1,570	-	-	-	449
Transient accommodations tax	-	1,000	-	-	-	-	-
Tobacco and liquor taxes	-	-	18,032	-	-	-	-
Liquid fuel tax	81,027	244	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-	-
Vehicle weight and registration tax	53,514	-	5,145	-	-	-	-
Rental motor/tour vehicle surcharge tax	40,401	-	-	-	-	-	-
Total taxes	174,942	13,472	24,747	-	-	-	449
Interest and investment income	18,173	6,509	8,163	63	1,886	1,907	1,735
Charges for current services	2,280	22,115	60,021	228	34,284	4,246	18,704
Intergovernmental	184,539	19,605	136,672	663,500	233,222	19,633	52,504
Rentals	-	3,703	-	-	312	1,934	-
Fines, forfeitures, and penalties	1,679	239	2,385	-	-	-	757
Licenses and fees	1,755	424	917	116	712	-	-
Revenues from private sources	-	59	38,105	30	276	-	-
Other	25,720	2,484	4,302	1,191	16,119	142	4,616
Total revenues	409,088	68,610	275,312	665,128	286,811	27,862	78,765
EXPENDITURES —							
Current:							
General government	-	3,361	180	-	-	-	-
Public safety	-	4,377	-	-	-	-	938
Conservation of natural resources	-	48,342	-	-	-	-	-
Health	-	-	244,378	-	-	-	-
Welfare	-	-	-	621,034	-	-	-
Lower education	-	-	-	-	363,828	-	-
Other education	-	-	-	8,938	-	-	-
Culture and recreation	-	7,049	-	-	2,638	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-
Economic development and assistance	-	2,215	-	597	-	29,761	68,473
Other	-	62	-	-	-	-	-
Highways	245,321	93	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Total expenditures	245,321	65,499	244,558	630,569	366,466	29,761	69,411
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	163,767	3,111	30,754	34,559	(79,655)	(1,899)	9,354
OTHER FINANCING SOURCES (USES):							
Issuance of GO Refunding Bonds — Par	-	-	-	-	-	-	-
Issuance of GO Refunding Bonds — Premium	-	-	-	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	-	-	-	-
Transfers in	52	2,270	2,042	4,831	50,965	-	52
Transfers out	(197,059)	(3,963)	(21,796)	(12,208)	-	(96)	(553)
Total other financing (uses) sources	(197,007)	(1,693)	(19,754)	(7,377)	50,965	(96)	(501)
NET CHANGE IN FUND BALANCES	(33,240)	1,418	11,000	27,182	(28,690)	(1,995)	8,853
FUND BALANCES — Beginning of year	182,438	104,863	117,626	(147)	92,365	21,522	22,908
FUND BALANCES — End of year	$ 149,198	$ 106,281	$ 128,626	$ 27,035	$ 63,675	$ 19,527	$ 31,761

Special Revenue Funds					Debt	Total
Regulatory	Hawaiian Programs	Administrative Support	All Other	Total	Service Fund	Nonmajor Governmental Funds
$ 2,000	$ -	$ -	$ -	$ 2,000	$ -	$ 2,000
-	-	-	-	14,247	-	14,247
-	-	-	-	1,000	-	1,000
-	-	1,988	-	20,020	-	20,020
-	-	-	1,509	82,780	-	82,780
1,181	-	-	-	1,181	-	1,181
	-	-	-	58,659	-	58,659
-	-	-	-	40,401	-	40,401
3,181	-	1,988	1,509	220,288	-	220,288
2,932	16,168	4,489	1,242	63,267	-	63,267
14,619	3,862	73,767	19,678	253,804	-	253,804
-	11,198	99,263	49,300	1,469,436	-	1,469,436
-	10,952	954	1,465	19,320	-	19,320
4,982	2	294	2,340	12,678	-	12,678
10,453	-	20,402	432	35,211	-	35,211
-	3,000	1,155	30	42,655	-	42,655
3,556	21,426	1,341	14,840	95,737	-	95,737
39,723	66,608	203,653	90,836	2,212,396	-	2,212,396
-	-	60,661	11,536	75,738	-	75,738
34,435	-	37,601	70,952	148,303	-	148,303
-	-	27	-	48,369	-	48,369
-	-	-	-	244,378	-	244,378
-	-	13,432	394	634,860	-	634,860
-	-	5,779	-	369,607	-	369,607
-	-	-	-	8,938	-	8,938
-	-	11,196	10,995	31,878	-	31,878
-	94,895	-	-	94,895	-	94,895
-	2,755	105	-	103,906	-	103,906
-	-	4,244	154	4,460	-	4,460
-	307	-	-	245,721	-	245,721
-	-	-	-	-	428,175	428,175
34,435	97,957	133,045	94,031	2,011,053	428,175	2,439,228
5,288	(31,349)	70,608	(3,195)	201,343	(428,175)	(226,832)
-	-	-	-	-	515,305	515,305
-	-	-	-	-	55,993	55,993
-	-	-	-	-	(571,297)	(571,297)
2,171	30,169	14,176	6,249	112,977	428,224	541,201
(2,560)	(3,129)	(60,008)	(2,045)	(303,417)	-	(303,417)
(389)	27,040	(45,832)	4,204	(190,440)	428,225	237,785
4,899	(4,309)	24,776	1,009	10,903	50	10,953
41,947	242,776	136,135	31,048	993,481	68	993,549
$ 46,846	$ 238,467	$ 160,911	$ 32,057	$ 1,004,384	$ 118	$ 1,004,502

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Highways			Natural Resources		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	89,208	81,027	(8,181)	230	244	14
Boating	-	-	-	-	-	-
Vehicle registration fee tax	21,688	20,577	(1,111)	-	-	-
State vehicle weight tax	34,865	32,937	(1,928)	-	-	-
Rental/tour vehicle surcharge tax	51,184	40,401	(10,783)	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	10,660	12,228	1,568
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	1,000	1,000	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	196,945	174,942	(22,003)	11,890	13,472	1,582
Non-taxes:						
Interest and investment income	12,500	5,029	(7,471)	2,346	1,500	(846)
Charges for current services	30,148	2,280	(27,868)	21,497	22,065	568
Intergovernmental	110,693	40,094	(70,599)	10,876	19,605	8,729
Rentals	-	-	-	2,686	3,703	1,017
Fines, forfeitures, and penalties	1,270	1,679	409	156	239	83
Licenses and fees	2,066	1,755	(311)	523	424	(99)
Revenues from private sources	-	-	-	-	59	59
Other	37	40,642	40,605	3,292	3,597	305
Total non-taxes	156,714	91,479	(65,235)	41,376	51,192	9,816
Total revenues	353,659	266,421	(87,238)	53,266	64,664	11,398
EXPENDITURES:						
General government	-	-	-	4,318	3,518	800
Public safety	-	-	-	5,548	2,983	2,565
Highways	310,941	252,498	58,443	-	-	-
Conservation of natural resources	-	-	-	76,471	50,612	25,859
Health	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Lower education	-	-	-	-	-	-
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	12,418	7,862	4,556
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	-	-	-	10,150	4,112	6,038
Other	-	-	-	-	-	-
Total expenditures	310,941	252,498	58,443	108,905	69,087	39,818
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ 42,718	$ 13,923	$ (28,795)	$ (55,639)	$ (4,423)	$ 51,216

Health Budget	Health Actual (Budgetary Basis)	Health Variance With Final Budget — Positive (Negative)	Education Budget	Education Actual (Budgetary Basis)	Education Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
5,245	5,145	(100)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
12,189	18,032	5,843	-	-	-
-	-	-	-	-	-
1,800	1,570	(230)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
19,234	24,747	5,513	-	-	-
2,515	1,435	(1,080)	254	377	123
90,285	89,892	(393)	31,555	34,284	2,729
101,123	136,672	35,549	187,335	233,222	45,887
-	-	-	38	312	274
1,097	2,385	1,288	-	-	-
828	917	89	732	712	(20)
57,015	38,105	(18,910)	400	276	(124)
4	5,669	5,665	46,720	17,792	(28,928)
252,867	275,075	22,208	267,034	286,975	19,941
272,101	299,822	27,721	267,034	286,975	19,941
205	182	23	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
532,604	348,962	183,642	-	-	-
-	-	-	-	-	-
-	-	-	602,261	355,445	246,816
-	-	-	-	-	-
-	-	-	4,490	3,010	1,480
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
532,809	349,144	183,665	606,751	358,455	248,296
$(260,708)	$ (49,322)	$ 211,386	$(339,717)	$ (71,480)	$ 268,237

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Human Services			Economic Development		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	-	-	-
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	-	-	-
Non-taxes:						
Interest and investment income	-	12	12	388	344	(44)
Charges for current services	-	228	228	7,377	4,246	(3,131)
Intergovernmental	222,114	253,541	31,427	15,757	19,633	3,876
Rentals	-	-	-	3,277	1,934	(1,343)
Fines, forfeitures, and penalties	-	-	-	-	-	-
Licenses and fees	406	116	(290)	-	-	-
Revenues from private sources	-	30	30	275	-	(275)
Other	-	970	970	13	593	580
Total non-taxes	222,520	254,897	32,377	27,087	26,750	(337)
Total revenues	222,520	254,897	32,377	27,087	26,750	(337)
EXPENDITURES:						
General government	-	-	-	-	-	-
Public safety	-	-	-	1,100	-	1,100
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health	-	-	-	-	-	-
Welfare	361,163	273,523	87,640	-	-	-
Lower education	-	-	-	-	-	-
Other education	16,114	8,370	7,744	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Economic development and assistance	2,376	607	1,769	126,263	45,347	80,916
Other	-	-	-	-	-	-
Total expenditures	379,653	282,500	97,153	127,363	45,347	82,016
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (157,133)	$ (27,603)	$ 129,530	$ (100,276)	$ (18,597)	$ 81,679

	Employment			Regulatory		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
	$ -	$ -	$ -	$ -	$ -	$ -
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	440	449	9	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	2,000	2,000	-
	-	-	-	1,750	1,181	(569)
	440	449	9	3,750	3,181	(569)
	1,090	302	(788)	980	601	(379)
	14,000	18,704	4,704	19,041	14,619	(4,422)
	35,978	56,794	20,816	-	-	-
	-	-	-	-	-	-
	100	757	657	885	4,982	4,097
	-	-	-	12,777	10,453	(2,324)
	-	-	-	-	-	-
	6	2,223	2,217	2,706	5,727	3,021
	51,174	78,780	27,606	36,389	36,382	(7)
	51,614	79,229	27,615	40,139	39,563	(576)
	-	-	-	-	-	-
	2,337	993	1,344	47,723	35,448	12,275
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	144,300	71,087	73,213	-	-	-
	-	-	-	-	-	-
	146,637	72,080	74,557	47,723	35,448	12,275
	$ (95,023)	$ 7,149	$102,172	$ (7,584)	$ 4,115	$ 11,699

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Hawaiian Programs			Administrative Support		
	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
REVENUES:						
Taxes:						
Unemployment compensation tax	$ -	$ -	$ -	$ -	$ -	$ -
Liquid fuel tax:						
Highways	-	-	-	-	-	-
Boating	-	-	-	-	-	-
Vehicle registration fee tax	-	-	-	-	-	-
State vehicle weight tax	-	-	-	-	-	-
Rental/tour vehicle surcharge tax	-	-	-	-	-	-
Employment and training fund assessment	-	-	-	-	-	-
Tobacco tax	-	-	-	1,532	1,988	456
Conveyances tax	-	-	-	-	-	-
Environmental response tax	-	-	-	-	-	-
Transient accommodations tax	-	-	-	-	-	-
Franchise tax	-	-	-	-	-	-
Tax on premiums of insurance companies	-	-	-	-	-	-
Total taxes	-	-	-	1,532	1,988	456
Non-taxes:						
Interest and investment income	1,010	429	(581)	2,322	847	(1,475)
Charges for current services	1	153	152	48,822	79,947	31,125
Intergovernmental	8,432	10,688	2,256	16,901	99,263	82,362
Rentals	8,239	10,672	2,433	6,235	5,511	(724)
Fines, forfeitures, and penalties	-	2	2	282	294	12
Licenses and fees	-	-	-	17,530	20,402	2,872
Revenues from private sources	-	3,000	3,000	1,350	1,155	(195)
Other	4,660	20,275	15,615	19,539	10,139	(9,400)
Total non-taxes	22,342	45,219	22,877	112,981	217,558	104,577
Total revenues	22,342	45,219	22,877	114,513	219,546	105,033
EXPENDITURES:						
General government	-	-	-	73,439	37,349	36,090
Public safety	-	-	-	27,999	17,927	10,072
Highways	-	-	-	-	-	-
Conservation of natural resources	-	-	-	1,286	974	312
Health	-	-	-	50	-	50
Welfare	-	-	-	20,281	14,624	5,657
Lower education	-	-	-	7,000	5,390	1,610
Other education	-	-	-	-	-	-
Culture and recreation	-	-	-	15,119	13,183	1,936
Urban redevelopment and housing	43,831	24,710	19,121	-	-	-
Economic development and assistance	-	-	-	-	-	-
Other	-	-	-	17,150	4,603	12,547
Total expenditures	43,831	24,710	19,121	162,324	94,050	68,274
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	$ (21,489)	$ 20,509	$ 41,998	$ (47,811)	$ 125,496	$ 173,307

All Other			Total Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)	Budget	Actual (Budgetary Basis)	Variance With Final Budget — Positive (Negative)
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	89,438	81,271	(8,167)
1,300	1,509	209	1,300	1,509	209
-	-	-	26,933	25,722	(1,211)
-	-	-	34,865	32,937	(1,928)
-	-	-	51,184	40,401	(10,783)
-	-	-	440	449	9
-	-	-	13,721	20,020	6,299
-	-	-	10,660	12,228	1,568
-	-	-	1,800	1,570	(230)
-	-	-	1,000	1,000	-
-	-	-	2,000	2,000	-
-	-	-	1,750	1,181	(569)
1,300	1,509	209	235,091	220,288	(14,803)
617	275	(342)	24,022	11,151	(12,871)
15,542	19,677	4,135	278,268	286,095	7,827
23,009	49,299	26,290	732,218	918,811	186,593
2,000	1,466	(534)	22,475	23,598	1,123
2,376	2,341	(35)	6,166	12,679	6,513
635	430	(205)	35,497	35,209	(288)
85	30	(55)	59,125	42,655	(16,470)
7,835	16,236	8,401	84,812	123,863	39,051
52,099	89,754	37,655	1,242,583	1,454,061	211,478
53,399	91,263	37,864	1,477,674	1,674,349	196,675
20,699	16,635	4,064	98,661	57,684	40,977
131,144	69,036	62,108	215,851	126,387	89,464
-	-	-	310,941	252,498	58,443
-	-	-	77,757	51,586	26,171
-	-	-	532,654	348,962	183,692
550	367	183	381,994	288,514	93,480
-	-	-	609,262	360,835	248,427
-	-	-	16,114	8,370	7,744
18,281	11,346	6,935	50,308	35,401	14,907
-	-	-	43,831	24,710	19,121
-	-	-	283,089	121,153	161,936
-	-	-	17,150	4,603	12,547
170,674	97,384	73,290	2,637,612	1,680,703	956,909
$ (117,275)	$ (6,121)	$ 111,154	$ (1,159,938)	$ (6,354)	$ 1,153,584

(Concluded)

STATE OF HAWAII

NONMAJOR SPECIAL REVENUE FUNDS
RECONCILIATION OF THE BUDGETARY TO GAAP BASIS
JUNE 30, 2010
(Amounts in thousands)

EXCESS OF REVENUES OVER EXPENDITURES — Actual (budgetary basis)	$ (6,354)
RESERVE FOR ENCUMBRANCES AT YEAR-END*	376,647
EXPENDITURES FOR LIQUIDATION OF PRIOR FISCAL YEAR ENCUMBRANCES	(263,372)
EXPENDITURES FOR UNBUDGETED PROGRAMS, PRINCIPALLY EXPENDITURES FOR CAPITAL PROJECTS ACCOUNTS AND REVOLVING FUNDS	(6,509)
TRANSFERS	58,047
ACCRUED LIABILITIES	(330,813)
ACCRUED REVENUES	399,186
EXCESS OF REVENUES OVER EXPENDITURES — GAAP basis	$ 226,832

* Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

ASSETS	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CURRENT ASSETS:				
Cash and cash equivalents	$ -	$ 94,642	$ 29,891	$ 124,533
Receivables:				
Accounts and accrued interest (net of allowance for doubtful accounts of $403)	328	1,966	347	2,641
Promissory note receivable (net of allowance for doubtful accounts of $0)	-	24,938	4,406	29,344
Other	13,265	420	741	14,426
Premiums	23,057	-	-	23,057
Prepaid expenses and other assets	181	-	-	181
Total current assets	36,831	121,966	35,385	194,182
CAPITAL ASSETS				
Equipment	13,638	-	1,095	14,733
	13,638	-	1,095	14,733
Less accumulated depreciation	(4,980)	-	(892)	(5,872)
Net capital assets	8,658	-	203	8,861
Promissory note receivable	-	285,367	77,622	362,989
Total noncurrent assets	8,658	285,367	77,825	371,850
TOTAL	$ 45,489	$ 407,333	$ 113,210	$ 566,032

(Continued)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010
(Amounts in thousands)

	Employer-Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
LIABILITIES				
CURRENT LIABILITIES:				
Vouchers and contracts payable	$ 108	$ 125	$ 137	$ 370
Other accrued liabilities	975	-	-	975
Accrued vacation, current portion	36	-	-	36
Benefits Claims Payable	38,334	-	-	38,334
Premiums payable	10,281	-	-	10,281
Total current liabilities	49,734	125	137	49,996
NONCURRENT LIABILITIES:				
Accrued vacation	137	213	42	392
Other postemployment benefit liability	544	392	113	1,049
TOTAL	50,415	730	292	51,437
NET ASSETS				
INVESTED IN CAPITAL ASSETS — Net of related debt	8,658	-	203	8,861
RESTRICTED FOR BOND REQUIREMENTS AND OTHER	-	406,603	112,715	519,318
UNRESTRICTED	(13,584)	-	-	(13,584)
TOTAL NET ASSETS	$ (4,926)	$ 406,603	$ 112,918	$ 514,595

(Concluded)

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
OPERATING REVENUES:				
Administrative fees	$ 5,117	$ 1,761	$ 2,095	$ 8,973
Premium revenue - self insurance	253,295	-	-	253,295
Other	3,616	3,205	262	7,083
Total operating revenues	262,028	4,966	2,357	269,351
OPERATING EXPENSES:				
Personnel services	1,669	-	-	1,669
Depreciation	914	-	69	983
Repairs and maintenance	32	-	-	32
General administration	2,630	1,554	950	5,134
Claims	248,281	-	-	248,281
Other	106	-	-	106
Total operating expenses	253,632	1,554	1,019	256,205
Operating income	8,396	3,412	1,338	13,146
NONOPERATING REVENUES:				
Interest and investment income	2,150	9,762	1,507	13,419
Other	2,198	-	-	2,198
Total nonoperating revenues	4,348	9,762	1,507	15,617
INCOME BEFORE CAPITAL CONTRIBUTIONS	12,744	13,174	2,845	28,763
CAPITAL CONTRIBUTIONS:				
Federal	-	17,455	26,241	43,696
State	-	1,045	1,630	2,675
	-	18,500	27,871	46,371
CHANGE IN NET ASSETS	12,744	31,674	30,716	75,134
NET ASSETS — Beginning of year as previously reported	(19,917)	374,929	82,202	437,214
Adjustment (Note 15)	2,247	-	-	2,247
NET ASSETS — Beginning of year after restatement	(17,670)	374,929	82,202	439,461
NET ASSETS — End of year	$ (4,926)	$ 406,603	$ 112,918	$ 514,595

STATE OF HAWAII

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from employer and employee for premium and benefit payments	$ 253,145	$ -	$ -	$ 253,145
Cash paid to suppliers	(3,044)	(117)	(501)	(3,662)
Cash paid to employees	(1,510)	(1,328)	(397)	(3,235)
Cash paid for premiums and benefit payments	(252,158)	-	-	(252,158)
Cash paid to other state agencies for services rendered	-	-	(41)	(41)
Rebates received for premium deposit for self-funded plans	1,234	-	-	1,234
Reserves returned by insurance carriers	854	-	-	854
Interest income from notes receivable	-	3,230	247	3,477
Administrative loan fees	-	1,741	1,966	3,707
Principal repayments on notes receivable	-	21,999	3,747	25,746
Disbursement of notes receivable proceeds	-	(66,569)	(18,338)	(84,907)
Net cash used in operating activities	(1,479)	(41,044)	(13,317)	(55,840)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State capital contributions	-	1,045	1,630	2,675
Proceeds from federal operating grants	-	17,455	26,181	43,636
Disbursement of federal operating grant	-	(12,777)	(10,916)	(23,693)
Other	2,200	-	-	2,200
Net cash provided by noncapital financing activities	2,200	5,723	16,895	24,818
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITY — Acquisition and construction of capital assets	(3,018)	-	-	(3,018)
CASH FLOWS FROM INVESTING ACTIVITIES — Interest from investments	2,297	9,795	1,450	13,542
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	-	(25,526)	5,028	(20,498)
CASH AND CASH EQUIVALENTS — Including restricted amounts — beginning of year	-	120,168	24,863	145,031
CASH AND CASH EQUIVALENTS — Including restricted amounts — end of year	$ -	$ 94,642	$ 29,891	$ 124,533

(Continued)

NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Employer Union Trust Fund	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Fund	Total Nonmajor Proprietary Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:				
Operating income	$ 8,396	$ 3,412	$ 1,338	$ 13,146
Adjustments to reconcile operating income to net cash used in operating activities:				
Depreciation	914	-	69	983
Premium reserves held by insurance companies	854	-	-	854
Increase in assets:				
Receivables	(2,988)	(44,564)	(14,734)	(62,286)
Deposits	(2,201)	-	-	(2,201)
Prepaid expenses	(148)	-	-	(148)
Increase (decrease) in liabilities:				
Vouchers and contracts payable	(230)	8	(18)	(240)
Other accrued liabilities	1,583	100	28	1,711
Benefit claims payable	(7,659)	-	-	(7,659)
Net cash used in operating activities	$ (1,479)	$ (41,044)	$ (13,317)	$ (55,840)

(Concluded)

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS — AGENCY FUNDS
JUNE 30, 2010
(Amounts in thousands)

	Agency Funds			Total
	Tax Collections	Custodial	Other	Agency Funds
ASSETS				
CASH AND CASH EQUIVALENTS	$ 13,304	$ 292,694	$ 25,107	$ 331,105
RECEIVABLES — Taxes	-	-	7,587	7,587
DUE FROM INDIVIDUALS, BUSINESSES, AND COUNTIES	26,336	27,713	-	54,049
DEPOSITS AND OTHER ASSETS — Trust	-	13,634	-	13,634
INVESTMENTS	10,884	33,762	28,484	73,130
TOTAL	$ 50,524	$ 367,803	$ 61,178	$ 479,505
LIABILITIES				
VOUCHERS PAYABLE	$ 50,524	$ 98	$ 241	$ 50,863
DUE TO INDIVIDUALS, BUSINESSES, AND COUNTIES	-	367,705	60,937	428,642
Total liabilities	$ 50,524	$ 367,803	$ 61,178	$ 479,505

STATE OF HAWAII

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Amounts in thousands)

	Balance — July 1, 2009 (As Restated)	Additions	Deductions	Balance — June 30, 2010
TAX COLLECTIONS:				
Assets:				
Cash and cash equivalents	$ 24,889	$ 6,056,385	$ (6,067,970)	$ 13,304
Investments	28,066	10,884	(28,066)	10,884
Due from individuals, businesses, and counties	24,172	6,058,549	(6,056,385)	26,336
Total assets	$ 77,127	$ 12,125,818	$ (12,152,421)	$ 50,524
Liabilities:				
Vouchers payable	$ 61,111	$ 50,524	$ (61,111)	$ 50,524
Due to individuals, businesses, and counties	16,016	-	(16,016)	-
Total liabilities	$ 77,127	$ 50,524	$ (77,127)	$ 50,524
CUSTODIAL:				
Assets:				
Cash and cash equivalents	$ 215,625	$ 3,922,581	$ (3,845,512)	$ 292,694
Due from individuals, businesses, and counties	37,133	368,501	(364,287)	41,347
Investments	30,569	33,762	(30,569)	33,762
Capital Assets	-	-	-	-
Total assets	$ 283,327	$ 4,324,844	$ (4,240,368)	$ 367,803
Liabilities:				
Vouchers payable	$ 35	$ 98	$ (35)	$ 98
Due to individuals, businesses, and counties	283,292	4,088,122	(4,003,709)	367,705
Total liabilities	$ 283,327	$ 4,088,220	$ (4,003,744)	$ 367,803
OTHER:				
Assets:				
Cash and cash equivalents	$ 24,869	$ 20,590	$ (20,352)	$ 25,107
Receivables	8,331	7,587	(8,331)	7,587
Investments	35,879	28,482	(35,877)	28,484
Total assets	$ 69,079	$ 56,659	$ (64,560)	$ 61,178
Liabilities:				
Vouchers payable	$ 162	$ 241	$ (162)	$ 241
Due to individuals, businesses, and counties	68,917	19,846	(27,826)	60,937
Total liabilities	$ 69,079	$ 20,087	$ (27,988)	$ 61,178
TOTAL — All agency funds:				
Assets:				
Cash and cash equivalents	$ 265,383	$ 9,999,556	$ (9,933,834)	$ 331,105
Receivables	8,331	7,587	(8,331)	7,587
Due from individuals, businesses, and counties	61,305	6,427,050	(6,420,672)	67,683
Investments	94,514	73,128	(94,512)	73,130
Total assets	$ 429,533	$ 16,507,321	$ (16,457,349)	$ 479,505
Liabilities:				
Vouchers payable	$ 61,308	$ 50,863	$ (61,308)	$ 50,863
Due to individuals, businesses, and counties	368,225	4,107,968	(4,047,551)	428,642
Total liabilities	$ 429,533	$ 4,158,831	$ (4,108,859)	$ 479,505

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
OMB CIRCULAR A-133 COMPLIANCE REPORTS

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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 the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Hawaii as of and for the year ended June 30, 2010, which collectively comprise the State of Hawaii's basic financial statements, and have issued our report thereon dated October 12, 2011. Our report includes a reference to other auditors. 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.

Other auditors audited the financial statements of the Department of Transportation — Airports and Harbors Divisions, which are major enterprise funds, the Water Pollution Control Revolving Fund, the Drinking Water Treatment Revolving Loan Fund, the Employer-Union Health Benefits Trust Fund, which are nonmajor enterprise funds, and the University of Hawaii, the Hawaii Housing Finance and Development Corporation, the Hawaii Public Housing Authority, the Hawaii Tourism Authority, the Hawaii Hurricane Relief Fund, the Hawaii Community Development Authority, and the Hawaii Health Systems Corporation, which are discretely presented component units, as described in out report on the State of Hawaii's financial statements. This report does not include the results of the other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control over Financial Reporting

Management of the State of Hawaii is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Hawaii's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of State of Hawaii's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of State of Hawaii's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2010-01, 2010-09, 2010-10 and 2010-11).

A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2010-02 through 2010-08).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Hawaii's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2010-12 through 2010-51.

The State of Hawaii's responses to the findings identified in our audit are attached to the accompanying schedule of findings and questioned costs. We did not audit the State of Hawaii's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor of the State of Hawaii, management of the State of Hawaii, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

October 12, 2011 (December 9, 2011, as to CFDA No. 81.042, *Weatherization Assistance for Low-Income Persons*, and CFDA No. 94.006, *AmeriCorps*)

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Auditor
State of Hawaii:

Compliance

We have audited the State of Hawaii's Departments of Accounting and General Services, Agriculture, Budget and Finance, Business, Economic Development, and Tourism, Commerce and Consumer Affairs, Defense, Human Resources Development, Labor and Industrial Relations, Land and Natural Resources, Public Safety, Taxation, and the Governor's Office, collectively referred to as the "Departments", compliance of certain Departments of the State of Hawaii with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement*, that could have a direct and material effect on each of these Departments' major federal programs for the year ended June 30, 2010. These Departments' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on the Departments' compliance based on our audit.

The State of Hawaii's basic financial statements include, among other Departments and Agencies, the operations of: Department of Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, University of Hawaii, and the Water Pollution Control Revolving Fund. These entities expended $2,938,345,483 in federal awards, which is not included in the schedule during the year ended June 30, 2010. Our audit, described below, did not include the operations of the Department of Attorney General, Department of Education, Department of Hawaiian Home Lands, Department of Health, Department of Human Services, Department of Transportation, Drinking Water Treatment Revolving Loan Fund, Hawaii Community Development Authority, Hawaii Employer-Union Health Benefits Trust Fund, Hawaii Health Systems Corporation, Hawaii Housing Finance and Development Corporation, Hawaii Hurricane Relief Fund, Hawaii Public Housing Authority, Hawaii Tourism Authority, University of Hawaii, and the Water Pollution Control Revolving Fund because these units engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Departments' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Departments' compliance with those requirements.

As described in items 2010-12, 2010-15, and 2010-47 in the accompanying schedule of findings and questioned costs, the State of Hawaii did not comply with procurement requirements that are applicable to CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*, CFDA No. 93.558, *Temporary Assistance for Needy Families*, matching requirements that are applicable to CFDA No. 10.025, *Plant and Animal Disease, Pest Control, and Animal Care,* and earmarking requirements applicable to CFDA No. 97.067, *Homeland Security Grant Program*. Compliance with such requirements is necessary, in our opinion, for the Departments to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Departments complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-13, 2010-14, 2010-16 through 2010-46, and 2010-48 through 2010-51.

Internal Control over Compliance

Management of the Departments is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Departments' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Departments' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance; such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-12, 2010-15 and 2010-47 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-13, 2010-14, 2010-16 through 2010-46, and 2010-48 through 2010-51 to be significant deficiencies.

The Departments' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Departments' responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor of the State of Hawaii, management of the State of Hawaii and the Departments, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte + Touche LLP

October 12, 2011 (December 9, 2011, as to CFDA No. 81.042, *Weatherization Assistance for Low-Income Persons,* and CFDA No. 94.006, *AmeriCorps*)

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE:				
U.S. Department of Agriculture Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	10.025		$ 500,632	$ 350
Wildlife Services	10.028		9,756	
Wetlands Reserve Program	10.072		47,339	
Aquaculture Grants Program	ARRA-10.086		30,699	
Federal-State Marketing Improvement Program	10.156		32,456	
Inspection Grading and Standardization	10.162		7,269	
Market Protection and Promotion	10.163		62,057	
Specialty Crop Block Grant Program	10.169		34,337	
Specialty Crop Block Grant Program — Farm Bill	10.170		84,649	
Emergency Food Assistance Program (Administrative Costs)	10.568		73,247	
ARRA-Emergency Food Assistance Program (Administrative Costs)	ARRA-10.568		81,588	
Senior Farmers Market Nutrition Program	10.576		410,994	
Cooperative Forestry Assistance	10.664		1,072,944	492,080
Urban and Community Forestry Program	10.675		257,509	69,752
Forest Legacy Program	10.676		18,093	
Forest Stewardship Program	10.678		127,006	
Forest Health Protection	10.680		653,544	
ARRA-Wildland Fire Management	ARRA-10.688		875,136	44,158
Watershed Protection and Flood Prevention	10.904		635,361	
Wildlife Habitat Incentive Program	10.914		120,552	
Scientific Cooperation and Research	10.961		1,418	
Total U.S. Department of Agriculture Direct Programs			5,136,586	606,340
U.S. Department of Agriculture Pass-Through Programs From:				
State Department of Human Services — State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	209,423	
Total U.S. Department of Agriculture			5,346,009	606,340
U.S. DEPARTMENT OF COMMERCE:				
U.S. Department of Commerce Direct Programs:				
Market Development Cooperator Program	11.112		46,952	
Economic Adjustment Assistance	11.307		199,287	95,000
Interjurisdictional Fisheries Act of 1986	11.407		54,648	
Fishery Products Inspection and Certification	11.413		210	
Coastal Zone Management Administration Awards	11.419		2,578,965	1,327,659
Financial Assistance for National Centers for Coastal Ocean Science	11.426		87,056	
Marine Sanctuary Program	11.429		199,494	
Habitat Conservation	11.463		19,030	
Meteorologic and Hydrologic Modernization Development	11.467		341,139	
Unallied Science Program	11.472		51,051	
Center for Sponsored Coastal Ocean Research — Coastal Ocean Program	11.478		47,203	
Manufacturing Extension Partnership	11.611		199,867	
National Oceanic and Atmospheric Administration-Management Support for Hawaiian Islands Humpback Whale, Joint Enforcement Agreement	11.UNKNOWN		626,260	
Pass-Through Program from the Research Corporation of the University of Hawaii, State of Hawaii: Pacific Fisheries Data Program	11.437		430,452	
U.S. Department of Commerce Pass-Through Program from The Research Corporation of the University of Hawaii Undersea Research	11.430	NA05IOAR4301108	22,577	
Total U.S. Department of Commerce Programs			4,904,191	1,422,659

(Continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF DEFENSE:				
U.S. Department of Defense Direct Programs:				
Military Construction — National Guard	12.400		$ 24,951,856	$ -
National Guard Military Operations and Maintenance Projects	12.401		16,889,297	
ARRA — National Guard Military Operations and Maintenance Projects	ARRA-12.401		730,015	
National Guard Challenge Program	12.404		1,894,811	
Research and Technology Development	12.910		8,690,013	
Department of the Navy — Kaho’olawe Rehabilitation Trust	12.UNKNOWN		3,334,804	
Letter of Agreement with STARBASE Hawaii	12.UNKNOWN		205,419	
Total U.S. Department of Defense Programs			56,696,215	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
U.S. Department of Housing and Urban Development Direct Program:				
Fair Housing Assistance Program — State and Local	14.401		140,791	-
U.S. DEPARTMENT OF INTERIOR:				
U.S. Department of Interior Direct Programs:				
Water Reclamation and Reuse Program	15.504		94,612	
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508		14,886	
Fish and Wildlife Management Assistance	15.608		472,921	
Coastal Wetlands Planning, Protection and Restoration Act	15.614		294,605	
Cooperative Endangered Species Conservation Fund	15.615		2,167,119	206,383
Fish and Wildlife Service — Kaena Point Seabird Habitat Restoration	15.617		100	
North American Wetlands Conservation Fund	15.623		178	
Coastal Program	15.630		19,971	
Partners for Fish and Wildlife	15.631		4,378	
Landowner Incentive Program	15.633		278,030	75,731
State Wildlife Grants	15.634		768,150	
Endangered Species Conservation — Recovery Implementation Funds	15.657		564	
Service Training and Technical Assistance (Generic Training)	15.649		532	
U.S. Geological Survey — Research and Data Collection	15.808		8,031	
Economic, Social, and Political Development of the Territories	15.875		98,813	
Historic Preservation Fund Grants-In-Aid	15.904		474,258	55,887
Outdoor Recreation — Acquisition, Development and Planning	15.916		732,321	632,554
Fish and Wildlife Service — Mauna Kea Forest Reserve Fence Repair: Northwest Section & Kauai Bog Endangered Species Management	15.FFB		11,983	
Total U.S. Department of Interior Direct Programs			5,441,452	970,555
Fish and Wildlife Cluster:				
Sport Fish Restoration Program	15.605		3,044,258	
Wildlife Restoration and Basic Hunter Education	15.611		1,473,247	
Total Fish and Wildlife Cluster			4,517,505	-
Total U.S. Department of Interior			9,958,957	970,555

(Continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF HAWAII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE:				
U.S. Department of Justice Direct Programs:				
Prison Re-entry Initiative	16.202		$ 185,278	$ 185,278
Comprehensive Approaches to Sex Offender Management Discretionary Grant	16.203		117,907	
Crime Victim Assistance	16.575		116,822	
Edward Byrne Memorial Formula Grant Program	16.579		253,966	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		100,479	
VOITIS Grants	16.586		3,210,043	
Public Safety Partnership and Community Policing Grants	16.710		294,975	
Statewide Automated Victim Information Notification Program	16.740		178,860	
ARRA-State Victim Compensation Formula Grant Program	ARRA-16.802		115,642	
Total U.S. Department of Justice Direct Programs			4,573,972	185,278
U.S. Department of Justice Pass-Through Programs From:				
Department of the Attorney General, Crime Prevention and Justice Assistance Division, State of Hawaii				
Residential Substance Abuse Treatment for State Prisoners	16.593		99,309	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		87,080	
Crime Victim Compensation	16.576	07-VC-GX-0025	291,109	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	07-DJ-08	24,426	
Department of Health, State of Hawaii				
Enforcing Underage Drinking Laws Program	16.727	ASO Log No. 07-183	74,650	
Gang Resistance Education and Training	16.737	ASO Log No. 07-210	231,111	
Subtotal the Department of Health, State of Hawaii Pass-Through Programs			807,685	-
Department of Human Services, State of Hawaii Juvenile Justice and Delinquency Prevention — Allocation to States	16.540	MOA-OYS-10-36	12,106	
Total U.S. Department of Justice			5,393,763	185,278
U.S. DEPARTMENT OF LABOR:				
U.S. Department of Labor Direct Programs:				
Labor Force Statistics	17.002		605,427	
Compensation and Working Conditions	17.005		90,661	
Senior Community Service Employment Program	17.235		2,050,512	1,879,545
ARRA-Senior Community Service Employment Program	ARRA-17.235		475,839	405,073
Unemployment Insurance	17.225		480,639,586	
ARRA-Unemployment Insurance	ARRA-17.225		228,083,630	
Trade Adjustment Assistance	17.245		32,509	
WIA Pilots, Demonstrations, and Research Projects	17.261		198,260	203,469
Work Incentive Grants	17.266		84,315	94,180
Reintegration of Ex-Offenders	17.270		71,572	71,572
Temporary Labor Certification for Foreign Workers	17.273		31,963	
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275		158,866	
Occupational Safety and Health — State Program	17.503		1,043,995	
Consultation Agreements	17.504		319,207	
Dislocated Worker National Reserve	17.999		716,607	838,685
Total U.S. Department of Labor Direct Programs			714,602,949	3,492,524

(Continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
Employment Service Cluster:				
Disabled Veterans' Outreach Program	17.801		$ 339,420	$ -
Local Veterans' Employment Representative Program	17.804		310,672	
Employment Service/Wagner-Peyser Funded Activities	17.207		6,001,106	4,270,251
ARRA-Employment Service/Wagner-Peyser Funded Activities	ARRA-17.207		870,347	
Total Employment Service Cluster			7,521,545	4,270,251
Workforce Investment Act (WIA) Cluster:				
WIA Adult Program	17.258		2,054,799	1,357,693
ARRA-WIA Adult Program	ARRA-17.258		842,224	584,040
WIA Youth Activities	17.259		2,634,982	2,120,422
ARRA-WIA Youth Activities	ARRA-17.259		1,458,285	1,278,618
WIA Dislocated Workers	17.260		1,992,204	1,950,023
ARRA-WIA Dislocated Workers	ARRA-17.260		1,330,268	1,065,462
Total WIA Cluster			10,312,762	8,356,258
Total U.S. Department of Labor			732,437,256	16,119,033
U.S. DEPARTMENT OF TRANSPORTATION:				
U.S. Department of Transportation Direct Programs:				
Recreational Trails Program	20.219		789,957	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		66,110	66,110
Total U.S. Department of Transportation Direct Programs			856,067	66,110
U.S. Department of Transportation Pass-Through Program from the Department of Transportation, State of Hawaii —				
Federal Transit Capital Investment Grants	20.500	State DOT:HI03003400, State DOT:HI03003800, State DOT:HI03004400	1,066,792	-
Total U.S. Department of Transportation			1,922,859	66,110
U.S. GENERAL SERVICES ADMINISTRATION:				
Donation of Federal Surplus Personal Property	39.003		5,121,102	-
Help America Vote Act of 2002, Title I Section 101	39.011		1,623,735	-
Total U.S. General Services Administration			6,744,837	-
U.S. NATIONAL ENDOWMENT FOR ARTS:				
Promotion of the Arts — Grants to Organizations and Individuals	45.024		164,518	-
Promotion of the Arts — Partnership Agreements	45.025		619,926	-
Total U.S. National Endowment for Arts			784,444	-
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION:				
Equal Employment Opportunity Commission	30.002		353,049	-
Total U.S. Equal Employment Opportunity Commission			353,049	-
U.S. DEPARTMENT OF VETERANS AFFAIRS:				
State Cemetery Grants	64.203		1,746,491	-
Total U.S. Department of Veterans Affairs			1,746,491	-

(Continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. ENVIRONMENTAL PROTECTION AGENCY:				
U.S. Environmental Protection Agency Direct Programs:				
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		$ 315,593	$ -
Brownfield Pilots Cooperative Agreements	66.811		455,515	
Total U.S. Environmental Protection Agency Direct Programs			771,108	-
U.S. Environmental Protection Agency Pass-Through Program from the Department of Health, State of Hawaii — Nonpoint Source Implementation Grants	66.460	State DOH:ASO#06054	79,650	
Total U.S. Environmental Protection Agency			850,758	-
U.S. DEPARTMENT OF ENERGY:				
U.S. Department of Energy Direct Programs:				
ARRA-State Energy Program	ARRA-81.041		1,243,708	
Weatherization Assistance for Low-Income Persons	81.042		341,257	
ARRA — Weatherization Assistance for Low-Income Persons	ARRA-81.042		1,294,480	
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training, and Technical Analysis/Assistance	81.117		27,685	
State Energy Program Special Projects	81.119		52,923	
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		10,071	-
Total U.S. Department of Energy			2,970,124	-
U.S. DEPARTMENT OF EDUCATION:				
U.S. Department of Education Direct Programs:				
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331A		44,964	-
Total U.S. Department of Education Direct Programs			44,964	-
State Fiscal Stabilization Fund Cluster:				
ARRA-State Fiscal Stabilization Fund — Education State Grants	ARRA-84.394		69,968,549	69,968,549
ARRA-State Fiscal Stabilization Fund — Government Services	ARRA-84.397		1,482,887	1,482,887
Total State Fiscal Stabilization Fund Cluster			71,451,436	71,451,436
Pass-Through Program from the State Department of Education:				
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013A		113,124	
Pass-Through Program from the State Department of Education: Career and Technical Education — Basic Grants to States	84.048A		27,691	-
Total U.S. Department of Education			71,637,215	71,451,436

(Continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
U.S. Department of Health and Human Services Direct Programs:				
Refugee and Entrant Assistance — State Administered Programs	93.566		$ 113,337	$ -
CSBG Cluster:				
Community Services Block Grant	93.569		3,903,727	3,558,907
ARRA-Community Services Block Grant	ARRA-93.710		877,711	877,711
Total CSBG Cluster			4,781,438	4,436,618
ARRA — Strengthening Communities Fund	ARRA-93.711		4,840	-
Total U.S. Department of Health and Human Services Direct Programs			4,899,615	4,436,618
Temporary Assistance for Needy Families (TANF) Cluster:				
Pass-Through Programs From:				
State Department of Human Services				
TANF State Programs	93.558	DHS-10-ETPO-125, DHS-07-BESSD-2130, DHS-05-BESSD-4079, DHS-10-ETPO-124, DHS-06-BESSD-3127, DHS-05-BESSD-2203, DHS-08-BESSD-5175	7,869,910	
ARRA — Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs	ARRA-93.714	DHS-10-ETPO-197	603,519	
Total TANF Cluster			8,473,429	-
Pass-Through from the University of Hawaii, State of Hawaii:				
Developmental Disabilities Projects of National Significance	93.631		221,923	
Total U.S. Department of Health and Human Services			13,594,967	4,436,618
CORPORATION FOR NATIONAL & COMMUNITY SERVICE:				
Pass-Through Programs from the Research Corporation of the University of Hawaii, State of Hawaii:				
AmeriCorps	94.006	07ACHHI0010001	546,764	546,764
ARRA-AmeriCorps	ARRA-94.006	09RCHHI001	916,852	916,852
Total Pass-Through Programs from the Research Corporation of the University of Hawaii, State of Hawaii			1,463,616	1,463,616
Total Corporation for National & Community Service			1,463,616	1,463,616

(Continued)

See accompanying notes to Schedule of Expenditures of Federal Awards.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY:				
U.S. Department of Homeland Security Direct Programs:				
Homeland Security Preparedness Technical Assistance Program	97.007		$ 144,296	$ 180
Boating Safety Financial Assistance	97.012		547,945	
Pre-Disaster Mitigation	97.017		164,309	99,142
Community Assistance Program State Support Services Element	97.023		89,588	
Disaster Grants — Public Assistance (Presidentially Declared Disasters)	97.036		2,636,053	1,765,387
Hazard Mitigation Grant	97.039		404,136	
National Dam Safety Program	97.041		31,793	
Emergency Management Performance Grants	97.042		2,502,975	
Cooperating Technical Partners	97.045		35,133	
Fire Management Assistance Grant	97.046		76,939	55,547
Pre-Disaster Mitigation	97.047		753,167	753,167
Interoperable Emergency Communications	97.055		2,360,513	1,775,400
Port Security Grant Program	97.056		902	
Intercity Bus Security Grants	97.057		729,736	729,736
Map Modernization Management Support	97.070		130,420	
Buffer Zone Protection Program	97.078		715,341	
Earthquake Consortium	97.082		5,170	
Regional Catastrophic Preparedness Grant Program	97.111		64,210	63,625
Crisis Counseling	97.432		62,404	62,404
Total U.S. Department of Homeland Security Direct Programs			11,455,030	5,304,588
Homeland Security Cluster				
Homeland Security Grant	97.067		12,280,946	10,836,133
Total Homeland Security Cluster			12,280,946	10,836,133
Total Department of Homeland Security			23,735,976	16,140,721
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 940,681,518	$ 112,862,366

(Concluded)

See accompanying notes to Schedule of Expenditures of Federal Awards.

1. REPORTING ENTITY

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the following State of Hawaii departments and agencies:

- Department of Accounting and General Services ("State DAGS")
- Department of Agriculture ("State DOA")
- Department of Budget and Finance ("State B&F")
- Department of Business, Economic Development, and Tourism ("State DBEDT")
- Department of Commerce and Consumer Affairs ("State DCCA")
- Department of Defense ("State DOD")
- Department of Human Resources Development
- Department of Labor and Industrial Relations ("State DLIR")
- Department of Land and Natural Resources ("State DLNR")
- Department of Public Safety ("State DPS")
- Department of Taxation
- Governor's Office

Certain other departments and agencies within the State of Hawaii obtained separate audits performed in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, separate OMB Circular A-133 submissions have been made (see Note 2).

2. OTHER STATE OF HAWAII DEPARTMENTS AND AGENCIES NOT INCLUDED IN THE ACCOMPANYING SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following is a summary of State of Hawaii departments and agencies that obtained separate OMB Circular A-133 audits. Awards listed in these audit reports are not included in the accompanying SEFA.

- Department of the Attorney General
- Department of Education
- Department of Hawaiian Home Lands
- Department of Health
- Department of Human Services
- Department of Transportation
- Drinking Water Treatment Revolving Loan Fund
- Hawaii Community Development Authority
- Hawaii Employer-Union Health Benefits Trust Fund
- Hawaii Health Systems Corporation
- Hawaii Housing Finance Development Corporation
- Hawaii Hurricane Relief Fund
- Hawaii Public Housing Authority
- Hawaii Tourism Authority

- University of Hawaii
- Water Pollution Control Revolving Fund

3. BASIS OF PRESENTATION

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Expenditures reported on the schedule are reported on the cash basis of accounting.

4. NONMONETARY ASSISTANCE

The SEFA contains values for a nonmonetary assistance program. As provided by program regulations, property received under the Donation of Federal Surplus Property program (Catalog of Federal Domestic Assistance (CFDA) No. 39.003) is presented at the Federal government's historical cost.

5. UNEMPLOYMENT INSURANCE

State unemployment tax revenues and government contributions are used to pay benefits under Federally approved State unemployment law. Of the $708,723,216 reported as expenditures for the unemployment insurance program (CFDA No. 17.225), $482,385,203 represented expenditures of the State of Hawaii funds.

6. RESEARCH AND DEVELOPMENT EXPENDITURES

The SEFA includes the following research and development amounts:

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:		
U.S. Department of Agriculture Direct Programs:		
Federal-State Marketing Improvement Program	10.156	$ 32,456
Wildlife Services	10.028	9,756
Urban and Community Forestry Program	10.675	19,036
Forest Stewardship Program	10.678	15,883
Forest Health Protection	10.680	96,514
Total U.S. Department of Agriculture		173,645
U.S. Department of Commerce Direct Programs:		
Coastal Zone Management Administration Awards	11.419	522,949
Financial Assistance for National Centers for Coastal Ocean Science	11.426	87,056
Habitat Conservation	11.463	19,030
Center for Sponsored Coastal Ocean Research — Coastal Ocean Program	11.478	47,203
Subtotal U.S. Department of Commerce Direct Programs		676,238
U.S. Department of Commerce Pass-Through Program from The Research Corporation of the University of Hawaii		
Undersea Research	11.430	22,577
Total U.S. Department of Commerce		698,815
U.S. Department of Defense Direct Program:		
Research and Technology Development	12.910	8,690,013
Total U.S. Department of Defense		8,690,013
U.S. Department of the Interior Direct Programs:		
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508	14,886
Sport Fish Restoration Program	15.605	700,408
Fish and Wildlife Management Assistance	15.608	57,782
Wildlife Restoration and Basic Hunter Education	15.611	190,839
Cooperative Endangered Species Conservation Fund	15.615	380,589
State Wildlife Grants	15.634	354,086
Service Training and Technical Assistance (Generic Training)	15.649	532
U.S. Geological Survey — Research and Data Collection	15.808	8,031
Fish and Wildlife Service — Mauna Kea Forest Reserve Fence Repair: Northwest Section & Kauai Bog Endangered Species Management	15.FFB	11,429
Total U.S. Department of the Interior		1,718,582
Total Research and Development Cluster		$ 11,281,055

* * * * * *

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unqualified**

Internal control over financial reporting:

- Material weakness(es) identified? ___X___ yes _________ no
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? ___X___ yes _________ none reported

Noncompliance material to financial statements noted? _________ yes ___X___ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___X___ yes _________ no
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? ___X___ yes _________ none reported

Type of auditors' report issued on compliance for major programs:

An unqualified opinion was issued on the State of Hawaii's compliance with its major federal programs for the year ended June 30, 2010, except for procurement requirements that are applicable to CFDA No. 12.401, *National Guard Military Operations and Maintenance Projects*, CFDA No. 93.558, *Temporary Assistance for Needy Families*, matching requirements that are applicable to CFDA No. 10.025, *Plant and Animal Disease, Pest Control, and Animal Care*, and earmarking requirements applicable to CFDA No. 97.067, *Homeland Security Grant Program*, for which the opinion on compliance was qualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ___X___ yes _________ no

Identification of major programs:

CFDA Number	Name of Federal Program
10.025	Plant and Animal Disease, Pest Control, and Animal Care
12.400	Military Construction Cooperative Agreement — Armed Forces Reserve Center; Keaukaha Military Training Reservation
12.401	Army & Air National Guard Master Cooperative Agreement — National Guard Military Operations and Maintenance Projects
ARRA-12.401	ARRA—Army & Air National Guard Master Cooperative Agreement — National Guard Military Operations and Maintenance Projects
15.615	Cooperative Endangered Species Conservation Fund
Employment Service Cluster	
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program
17.207	Employment Service/Wagner-Peyser Funded Activities
ARRA-17.207	ARRA—Employment Service/Wagner-Peyser Funded Activities
17.225	Unemployment Insurance
ARRA-17.225	ARRA — Unemployment Insurance
17.235	Senior Community Service Employment Program
ARRA-17.235	ARRA — Senior Community Service Employment Program
WIA Cluster	
17.258	WIA Adult Program
ARRA-17.258	ARRA — WIA Adult Program
17.259	WIA Youth Activities
ARRA-17.259	ARRA — WIA Youth Activities
17.260	WIA Dislocated Workers
ARRA-17.260	ARRA — WIA Dislocated Workers
ARRA-81.041	State Energy Program
81.042	Weatherization Assistance for Low-Income Persons
ARRA-81.042	ARRA — Weatherization Assistance for Low-Income Persons
State Fiscal Stabilization Fund Cluster	
ARRA-84.394	ARRA — State Fiscal Stabilization Fund (SFSF): Education State Grants, Recovery Act
ARRA-84.397	ARRA — State Fiscal Stabilization Fund (SFSF): Government Services, Recovery Act
TANF Cluster	
93.558	Temporary Assistance for Needy Families State Programs (Pass-Through from the U.S. Department of Health and Human Services/ State of Hawaii Department of Human Services)
ARRA-93.714	ARRA — Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs (Pass-Through from the U.S. Department of Health and Human Services/State of Hawaii Department of Human Services)

CFDA Number	Name of Federal Program
CSBG Cluster	
93.569	Community Services Block Grant
ARRA-93.710	ARRA — Community Services Block Grant
94.006	AmeriCorps (Pass-Through from the Research Corporation of the University of Hawaii
ARRA-94.006	ARRA — AmeriCorps (Pass-Through from the Research Corporation of the University of Hawaii)
97.036	Disaster Grants — Public Assistance (Presidentially Declared Disasters)
97.067	Homeland Security Grant

U.S. dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as low-risk auditee? _________ yes ___X____ no

SECTION II — FINANCIAL STATEMENT FINDINGS

2010-01 — Schedule of Expenditures of Federal Awards (SEFA) (Material Weakness)

Criteria

The Federal U.S. Office of Management and Budget (OMB) issued OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. OMB Circular A-133 requires nonfederal entities that expend $500,000 or more in a year in federal awards to have a single audit conducted on its financial statements and SEFA.

OMB Circular A-133 established the following responsibilities for the State's management:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

- Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

- Prepare appropriate financial statements, including the SEFA.

- Ensure that the audits required by OMB Circular A-133 are properly performed and submitted within nine months after the end of the audit period.

Condition

The State DAGS performs the accounting function for the State, including preparing the State's Comprehensive Annual Financial Statements (CAFR) and the combined departments' SEFA.

While attempting to prepare the departmental SEFA, it was determined that certain State departments did not possess the ability to prepare complete and accurate schedules of Federal awards due to the following:

- Inability to separately identify expenditures of Federal awards for specific Federal grants within the State's accounting records.

- The omission or overstatement of Federal expenditures being included in the SEFA. Refer to finding 2010-09 for additional details.

- Miscommunication among State departments pertaining to Federal monies passed between the State departments.

Cause

The State's current accounting process does not track Federal funds individually within the general ledger system. Instead, one appropriation account is often created and assigned to the respective department and many Federal grants expended by the department are grouped within the one appropriation account. For a department that receives and expends multiple Federal funds, it must prepare and maintain separate accounting records outside of the Financial Accounting and Management Information Systems (FAMIS), the State's general ledger system, to be able to segregate the cash balances, receipts and expenditures by each grant that it receives. These separate accounting records are maintained by multiple accountants in the larger departments and are not combined and reconciled to FAMIS periodically.

DAGS required that each department prepare their own departmental SEFA. Each department attempted to prepare its SEFA using a different basis of accounting. Certain departments prepared the SEFA on a cash basis, while other departments prepared the SEFA on the accrual basis and some departments used a mix of both cash basis and accrual basis. The difference in basis resulted in Federal expenditures being omitted for some grants and Federal expenditures being included that pertained to the subsequent year.

In addition, State departments receiving Federal funds from the U.S. Federal government often transfer these Federal funds to other State departments to administer the grant. The State failed to communicate which state department is responsible for reporting the Federal fund expenditure in the SEFA.

Effect

Due to the deficiencies in internal control over the SEFA preparation noted above, material misstatements occurred in the SEFA that were not detected by management's internal controls and were subsequently corrected through audit adjustments. Accordingly, we believe the above collectively represent a material weakness in internal control over financial reporting. The effects of the errors are:

- Omissions of Federal grants and specific program expenditures from the departmental and combined SEFA.

- Double counting of specific program expenditures within the combined SEFA.

- Departments unable to perform reconciliations between their departmental SEFA and the Federal expenditures recorded within the State FAMIS details.

- Delinquent current year submission of the combined SEFA, which was due by March 31, 2011.

Recommendation

State DAGS should develop a well-defined process for Federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA.

Training and instructions should be communicated to affected State departmental personnel to aid in fiscal management's preparation of the SEFA.

Additionally, an independent review of departmental SEFA should be performed by appropriately trained personnel to ensure completeness, consistency, and compliance with reporting requirements, and State accounting and disclosure policies.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-02 — Accounting and Reporting of Cash and Cash Equivalents (Significant Deficiency)

Criteria

Management is responsible for maintaining and enforcing internal controls over the cash reconciliation process to ensure that cash balances reported in the CAFR are accurately stated.

Condition

The cash reconciliation process requires the State B&F personnel to reconcile bank statements to the State B&F cash subledger. This cash subledger, in turn, is reconciled with the State's general ledger, FAMIS, which is maintained by State DAGS. The State B&F cash subledger also includes certain investments, which are identified during the reconciliation process and are recorded on a separate line item by State DAGS when preparing the financial statements.

During the audit, it was determined that investment disposals were incorrectly coded by State DAGS as investment additions. This was a coding and data entry error on the part of State DAGS. In addition, State B&F did not submit timely investment reconciliations throughout the year; as such the coding errors affecting both cash and investments were not discovered until after fiscal year-end. There were a total of 144 top-sided reconciling items. Of the 144 reconciling items, $825 million were additive items and $638 million were subtractive items to the cash balance reported in FAMIS.

Cause

State B&F is responsible for maintaining and reporting the cash balances of the State's bank accounts and providing this information to State DAGS, which is responsible to reconcile this information to FAMIS. State B&F maintains a stand-alone cash subledger in order to track the cash activity. These cash subledgers are manually reconciled to the bank statements by State B&F personnel, which is a time consuming process. Although State B&F is required to submit to State DAGS the reconciled cash subledger on a monthly basis, State B&F was late in the submission of the monthly bank statement reconciliations throughout the year and did not submit the June 30, 2010, bank statement to cash subledger reconciliation to State DAGS until May 2011 for certain major bank accounts.

Effect

The untimely differences identified through the respective reconciliations will fluctuate based on the timing of the transactions and could be material to the financial statements as a whole, resulting in a material misstatement in cash balances included in the CAFR.

Recommendation

Differences between the bank statements and the cash subledger and between the cash subledger and FAMIS should be identified timely, reviewed, and recorded in FAMIS. Without this process the State agencies that rely on FAMIS cash balances will not have complete financial records.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-03 — Internal Control over Financial Reporting (Significant Deficiency)

Criteria

Management is responsible for establishing and maintaining internal control over financial reporting, the objectives of which are to provide management with reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Condition

The State's internal control over financial reporting could be improved. During the June 30, 2010 audit we identified multiple deficiencies that, when considered in the aggregate, indicated a significant deficiency in the internal control over financial reporting.

The process used by the State DAGS Accounting Division to obtain the required information from the State departments and agencies to prepare the CAFR (e.g., preparing governmental fund financial statements on a modified accrual basis and the government-wide financial statements on an accrual basis) is inefficient, very time consuming, and causes delays in statewide financial reporting. In addition, there is no enforcement of the timetable that is established to ensure that all of the departments and agencies submit accurate information on a timely basis.

Numerous post-closing adjustments were required to correct accounting and reporting errors made in the current year, as well as in the prior year.

Cause

State DAGS is responsible for preparing the CAFR for the State. The CAFR includes governmental fund financial statements prepared on a modified accrual basis of accounting and government-wide financial statements prepared on a full accrual basis. Since FAMIS is maintained using the cash basis of accounting, State DAGS is required to prepare accounting entries to convert the cash basis of accounting to the modified accrual basis of accounting to prepare governmental fund financial statements, and then prepare another set of entries to convert to the accrual basis of accounting to prepare government-wide financial statements. As part of the closing process in fiscal year 2010, approximately 360 accounting entries were posted, which were characterized as follows:

- Seventy top-sided government-wide entries. These entries were prepared without a trial balance or a fund-to-government-wide financial statement conversion worksheet.
- Two-hundred ninety fund financial statement entries, one of which was an audit adjustment entry.

Information necessary to prepare such accounting entries must be obtained from the State departments and agencies. In fiscal year 2010, State DAGS requested formal reporting information packages to obtain the financial information from State departments, but did not receive adequate responses from the departments, and thus had to revert to the use of informal emails, telephone calls, and spreadsheets. As a result, the information received often was neither uniform, nor in a format that could easily be used. The departments and agencies were often late in submitting the required information, which caused a significant delay in the preparation of the CAFR.

Additionally, DAGS consolidates the CAFR using audited financial statements from other State agencies. DAGS is unable to receive final financial statements from other State agencies timely.

Effect

Because of the inadequate internal control over financial reporting discussed above, material misstatements in the financial presentation due to error or fraud could occur and not be detected on a timely basis; accordingly, we believe the above collectively represent a significant deficiency in internal control over financial reporting.

Recommendation

State DAGS should continue to develop well-defined, systematic, efficient, and orderly processes for financial reporting that include a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format, and frequency of analyses) should be formally documented, approved, communicated to other departments and agencies, and monitored on a regular basis.

Required analyses (including the format, timeline, preparers, and reviewers) should be prepared, updated, and distributed on a regular basis. State DAGS should have processes in place at the end of each accounting period to ensure that all reconciliations are appropriately performed and independently reviewed. Subsidiary records should be reconciled to the general ledger on a regular basis, and all reconciling items should be identified, investigated, and resolved on a timely basis.

State DAGS should have a process in place to ensure that the trial balances used to prepare the financial statements are final, contain all valid journal entries, and include the results of all departments and agencies for which consolidation is appropriate, and that accounting periods in the accounting system are closed to prevent subsequent posting of transactions.

An independent review of the financial statements and all related disclosures using a GAAP financial statement presentation checklist should be performed by State DAGS personnel to ensure completeness, consistency across accounting periods, and compliance with GAAP and the State's accounting and disclosure policies.

Adherence to these policies and procedures will facilitate the processing of complete, accurate, and timely financial information.

Views of Responsible Officials and Planned Corrective Action

Refer to the Attached Response.

2010-04 — Accounting for Postemployment Benefits (Significant Deficiency)

Criteria

The State adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during fiscal year 2008. Pursuant to paragraph 12 of GASB Statement No. 45, for financial reporting purposes, an actuarial valuation should be performed at least biennially for plans with a total membership of 200 or more. The valuation should be performed in accordance with the parameters as of a date not more than 24 months before the beginning of the first year of the two-year period. The State had a valuation performed on July 1, 2007. According to provisions of GASB Statement No. 45, the State needed another valuation as of July 1, 2009, to be used for its June 30, 2010, financial statements.

Condition

State B&F is responsible for procuring the outside actuary, which was hired to perform the actuarial valuation for the State. Certain significant assumptions needed to be determined by the State and provided to the third-party actuary in order for the actuary to complete the valuation. These assumptions were not provided to the third-party actuary until February 2011, which resulted in the State receiving the actuary report in March 2011.

Cause

Whenever the State performs a new valuation, it re-evaluates the assumptions used to determine if the underlying assumptions are reflective of the current and future situation of the State. The State started to address these assumptions during late fiscal year 2009, but did not make a definitive decision to change certain assumptions until the third quarter of fiscal year 2011. For its July 1, 2009 valuation, the State changed its discount rate from 5% to 4% and changed the amortization period from 30 years closed to 30 years open.

Effect

The delay in receiving the July 1, 2009, actuarial valuation report caused delays in completing the June 30, 2010, CAFR. Additionally, certain State component units and proprietary funds rely on State DAGS to allocate its related other postemployment benefit (OPEB) liability and expense to be recorded within their financial statements. Accordingly, the delay in performing the actuarial valuation also delayed the completion of these affected State component units and proprietary funds financial statements some whose independent auditors' qualified their opinion as the information for OPEB liability and expense was not available upon their report issuance.

Recommendation

The State needs to improve the process in determining the significant assumptions to be used for the OPEB calculation. The State management needs to confirm the estimates and submit the details to the State contracted actuary timely.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-05 — Accounting for Component Units and Proprietary Funds (Significant Deficiency)

Criteria

Component units (CU) are legally separate organizations that the State must include as part of its financial reporting entity for fair presentation in conformity with GAAP. CUs have unique accounting and reporting requirements as established by GASB Statement No. 14, *The Financial Reporting Entity*, and by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14*. The GASB accounting standards provide defined criteria for determining whether a particular legally separate entity is a CU of the State.

Similarly, enterprise funds that meet the definition of major funds established by GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, should be reported separately within the proprietary fund (PF) financial statements.

Condition

During fiscal year 2008, State DAGS implemented a policy on reporting "material" CUs and PFs, which stated that only material CUs and PFs would be disclosed as discretely presented CUs and major PFs in the CAFR. Materiality was determined based on certain quantitative criteria determined by State DAGS considering the requirements in GASB Statement Nos. 14 and 39 for CUs and GASB Statement No. 34 for PFs.

As a result of implementing the policy, State DAGS noted that the Stadium Authority, High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority met the definition of discretely presented CUs as defined in GASB Statement Nos. 14 and 39, but did not meet the materiality thresholds under the State's policy, and thus were not disclosed as discretely presented CUs in the June 30, 2010, CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

State DAGS also noted that the State DLIR — Disability Compensation Fund, the State DPS — Correctional Industries Fund, the Accounting and General Services — State Parking Revolving Fund, and the Accounting and General Services — Motor Pool Fund met the definition of PFs as defined in GASB Statement No. 34, but did not meet the materiality threshold under the State's policy, and thus were not disclosed as PFs in the June 30, 2010, CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

Cause

In determining which CUs should be presented as discretely presented CUs and which PFs should be presented as major PFs in the CAFR, management did not follow the guidelines included in GASB Statements Nos. 14, 34, and 39, but instead used its own definition of materiality. State DAGS also noted that some of the CUs and PFs mentioned above have historically not been able to close their books and to complete their audits in a timely manner, such that the audited financial statements would not be available for the preparation of the CAFR. In addition to management's policy that the CUs and PFs under this policy are immaterial to the financial statement taken as a whole, State DAGS also determined that auditing the state agencies, which are not disclosed as discretely presented CUs and major PFs in the CAFR would require time and resources to complete and would likely further delay the completion of the CAFR.

Effect

In accordance with the State's policy, these entities and funds were incorrectly included in the governmental funds activities of the CAFR and were not reported as discretely presented CUs or major PFs, despite meeting the CU and PF criteria under GAAP. See below for summary of balances of entities and funds that were incorrectly classified by State management (in millions):

	Approximate Revenues	Approximate Expenditures	Approximate Assets
Discretely presented Component Units:			
Stadium Authority	$ 7.1	$ 12.0	$ 72.3
High Technology Development Corporation	7.1	3.9	17.1
Natural Energy Laboratory of Hawaii Authority	12.7	12.6	25.3
Nonmajor Proprietary Funds:			
Department of Labor and Industrial Relations — Disability Compensation Fund	19.0	16.0	13.2
Public Safety Department — Correctional Industries Fund	4.9	4.9	4.4
Accounting and General Services — State Parking Revolving Fund	3.7	3.5	26.0
Accounting and General Services — Motor Pool Fund	2.4	1.6	4.7

We believe that this situation results in a deficiency in internal control over financial reporting.

Recommendation

State DAGS should consider changing the accounting policy to conform to the provisions of GASB Statement Nos. 14, 34, and 39 when preparing the CAFR.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-06 — Accounting for Capital Assets (Significant Deficiency)

Criteria

The State CAFR is prepared using GAAP which require the State to report capital asset balances (i.e., infrastructure, land, land improvements, buildings, construction in progress, and accumulated depreciation) in the government-wide financial statements of the State CAFR.

Condition

As noted in prior audits, the State does not have a single comprehensive capital assets system to identify and monitor all capital assets used in governmental activities. Instead, State DAGS utilizes various sources of capital asset financial information in preparing the CAFR.

Land, land improvements, buildings, building improvements, equipment, and accumulated depreciation for all governmental activity departments, except for the Department of Education, are accounted for by utilizing the Fixed Asset Inventory Management System (FAIS), which is maintained by the inventory management branch ("Inventory Management") of the State Procurement Office within State DAGS. According to the FAIS user manual, each State department is responsible for ensuring that newly acquired property is recorded in FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility to maintain the property.

Infrastructure and related accumulated depreciation are maintained on electronic spreadsheets by the Department of Hawaiian Homelands (DHHL) and the Department of Transportation — Highways Division ("Highways") and are provided to State DAGS annually for inclusion in the CAFR. Capital asset information for the Department of Education is maintained by that department and is provided to State DAGS annually for inclusion in the CAFR.

The State's construction in progress, except for the Department of Education, is maintained by State DAGS — Public Works (the "Public Works Division"). Financial information from the Public Works Division is provided to State DAGS annually for inclusion in the CAFR.

During our testing, we noted that capital asset additions included $8.2 million of assets that should have been recorded in the prior year, but were recorded in the current year. Depreciation expense related to these assets that should have been recorded in the prior year amounted to approximately $1.2 million. We also noted that some of these asset additions in the current year were over 20-years old.

Cause

State DAGS lacks a formal, organized process to consolidate and maintain capital asset financial information. Additionally, State DAGS lacks a process to ensure that any material omissions from FAIS are detected in a timely manner.

Effect

As a result of the various control weaknesses, State DAGS encounters significant delays in the preparation of capital asset information, which results in significant delays in the preparation and issuance of the CAFR.

Recommendation

State DAGS should establish formal, methodical, and systematic policies and business processes to ensure that information is processed by the State's various capital asset ledgers and systems in an accurate and timely manner. State DAGS should also implement periodic consolidation and review procedures, which require capital asset information to be provided, consolidated, and reviewed for errors by qualified employees on a periodic basis. The consolidation process and review of information should be communicated to all users of the various capital asset information systems and enforced.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-07 — User Access Monitoring and Review (Significant Deficiency)

Criteria

The State has a process in place whereby the request to provide access to new users or to modify user access and to terminate users who are no longer employed, must be performed online by completing a user access form. Additionally, there should be an annual review of the information system to confirm that the application is free of terminated users and user permissions are provided to only those who need the required access based on their job responsibility.

Condition

During the course of our audit, we noted that the State DAGS — Information and Communication Services Division (ICSD) did not consistently follow the processes in place to document authorizations of new and modified user access, nor did it consistently remove terminated access from systems within five days of termination. Additionally, any of the system administrators can make and approve a user access request. Those requesting access, should not be the same as those who are assigning access.

Cause

ISCD has not communicated to all users that the online user access request system must be used to request new access, modify access, and to document terminated user access within five business days of termination. The user access reviews do not include a review and sign off from business managers and supervisors, indicating that they authorize access and that the system is free of terminated users.

Effect

If information security is not administered appropriately, significant information resources may be modified inappropriately, disclosed without authorization, and/or unavailable when needed. Furthermore, such security breaches may go undetected. This deficiency in the design of internal controls may not be able to ensure that information system user access to the State's information system are appropriately managed to minimize the likelihood of disruption, unauthorized alterations, and errors which impact the accurate, complete, and valid processing and recording of financial information.

Recommendation

ICSD should communicate to departments requiring access to ICSD systems that they are required to complete the standard user access request form to request user access or modify access to the system. In addition, a process should be created to facilitate timely (within five days) notification of terminated users to ICSD and documentation of the notification should be retained.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-08 — Great Plains Change Control (Significant Deficiency)

Criteria

Good internal controls require that a change control process be created for the documentation, testing, and authorization of changes to the Great Plains system production environment.

Condition

There is currently no documentation of changes to the Great Plains application.

Cause

There is no process to retain documentation for the testing and authorization of changes made to the Great Plains system production environment.

Effect

Unauthorized changes to production environments can result in changes that do not align with management's intentions and can ultimately result in systems, which process data inaccurately or incompletely.

Recommendation

Management should implement a change control process which:

- Documents testing and authorization for implementation to all production environments prior to implementation.

- Segregate the ability to make changes to production systems from the responsibility of programming and authorizing changes to production.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-09 — SEFA (Material Weakness)
State Department of Accounting and General Services

The preliminary draft of the State's SEFA contained the following material misstatements, which were corrected by audit adjustments:

- Federal expenditure omission — CFDA No. 17.225, *Unemployment Insurance,* (provided by the U.S Department of Labor and Industrial Relations to the State DLIR for unemployment compensation benefits). Approximately $688,000,000 was not included in the preliminary SEFA. An audit adjustment was recorded to correct this error.

- Federal grant expenditure omission — CFDA No. 12.400, *Military Construction, National Guard,* provided by the U.S. Department of Defense to the State DOD for a construction project and was subsequently transferred to the States DAGS Public Works Division to administer the grant. Neither the State DOD nor State DAGS reported the $24,951,856 expenditure in its departmental SEFA. An audit adjustment was recorded to correct this error.

- Federal expenditures for CFDA No. 39.011, *Help America Vote Act of 2002, Title I, Section 101,* was overstated by approximately $1,200,000 due to State DAGS including encumbered amounts as part of the amounts reported in the department SEFA. An audit adjustment was recorded to correct the reported amount.

Refer to finding 2010-01 for additional details and views of responsible officials and planned corrective action.

2010-10 — Untimely submission of June 30, 2008 and 2009 SEFAs (Material Weakness) State Department of Defense

Criteria

Prior to fiscal year 2010, the State DOD prepared stand-alone financial statements and SEFA to comply with OMB Circular A-133. OMB Circular A-133 Section 320, *Report submission*, requires the completed audit and data collection form be submitted within the earlier of 30 days after receipt of the auditors' report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition

The State DOD's SEFA and data collection forms for the fiscal years ended June 30, 2008 and 2009, were required to be submitted by March 31, 2009 and 2010, respectively. However, these reports have not yet been submitted as of the date of this report.

Cause

The State DOD understood the Federal reporting requirements; however, it did not prepare, complete, or procure an audit of, and did not submit its SEFAs or data collection forms for such years.

Effect

The State DOD is not compliant with its Federal reporting requirements. The Federal Emergency Management Agency (FEMA) and the U.S. Department of Defense's federal cognizant agency, also cited the State DOD for a similar finding during an inspection occurring during fiscal year ended June 30, 2010.

Recommendation

The State DOD should improve internal controls over financial reporting to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-11 — Untimely Submission of June 30, 2009 SEFA (Material Weakness) State Department of Labor and Industrial Relations

Criteria

Prior to fiscal year 2010, the State DLIR prepared stand-alone financial statements and SEFA to comply with OMB Circular A-133. OMB Circular A-133 Section 320 requires the completed audit and data collection form be submitted within the earlier of 30 days after receipt of the auditors' report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition

The State DLIR's SEFA and data collection form for the year ended June 30, 2009, were required to be submitted by March 31, 2010. However, these reports have not been submitted as of the date of this report.

Cause

Although the State DLIR's auditors commenced the audit of the 2009 financial statements and SEFA, the auditors have not been able to complete their work due to not all information being provided to them to complete their audit. Although the required information has since been provided to the auditors, they had not finalized the 2009 financial statements and SEFA as of the date of this report.

Effect

The State DLIR is not compliant with its Federal reporting requirements.

Recommendation

The State DLIR should improve its internal controls over financial reporting to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-12 — Procurement Parceling (Material Weakness)
State DOD

CFDA No. 12.401 — *National Guard Military Operations and Maintenance Projects (Direct Program from the U.S. Department of Defense, Award W912J6)*
CFDA No. 93.558 — *Temporary Assistance for Needy Families Program (Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services, Award DHS-10-ETPO-125)*

Criteria

Per Executive Memorandum 08-05 from the State B&F (which was effective August 26, 2008), a Governor's approval through State B&F, compliance with the Department of Human Resources Development (DHRD) requirements, as well as State DAGS approvals are required for personal service contracts greater than $10,000.

Per the Hawaii Revised Statute (HRS) Section Chapter 103D — Hawaii Public Procurement Code, parceling is defined as the artificial division or intentional division of a purchase of same, like or related items of goods, services, or construction into several purchases of smaller quantities in order to evade the statutory competitive requirements.

Condition

During the audit, we noted instances of parceling from the following Federal grants:

- National Guard Military Operations and Maintenance Projects Program (CFDA No. 12.401)
- Temporary Assistance for Needy Families (TANF) Program (CFDA No. 93.558)

We noted that 16 different individuals were hired through 52 separate contracts totaling $465,902. In each of the 16 cases, it appeared that contracts exceeding $10,000 were split into amounts under $10,000 and renewed over the course of months for amounts under $10,000. By splitting contracts into smaller amounts below $10,000, services were procured without the required approvals pursuant to Executive Memorandum 08-05.

In 2010, State DAGS Audit Division performed an audit on certain State DOD programs and noted that parceling of services had also occurred during the fiscal year ended June 30, 2009. State DAGS Audit Division informed State DOD to cease its parceling of personal service contracts, however, the parceling continued for contracts during 2010.

Questioned Costs

$465,902

Cause

In an effort to reduce payroll costs, State employees (including employees at State DOD) were placed on a furlough program whereby they would work less than 40 hours in certain weeks. In addition, the State implemented a hiring freeze on vacant positions. In order to complete their work, the State DOD hired contractors through personal service contracts. To avoid obtaining approvals under Executive Memorandum 08-05, State DOD issued each contract under $10,000. As each contract expired, the State DOD issued additional contracts to the same person, with each additional contract being less than $10,000.

Effect

The State DOD expended Federal funds for contracts that were improperly procured.

Recommendation

The State DOD should improve its internal controls over compliance with procurement regulations. Additionally, the State DOD should consider implementing periodic training on procurement regulations, including parceling.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-13 — Cash Management (Significant Deficiency)
State DOA

CFDA No. 10.025 — *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Criteria

The U.S. Department of the Treasury regulations at 31 CFR Sections 205.33, for cash management compliance, requires State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds and requires a State to minimize the time between the drawdown of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition

During our audit, we examined 40 selections of cash advances and identified 13 instances where the number of days elapsed between the Federal cash advances and Federal fund expenditures date exceeded 90 days. It is administratively feasible for the State to make expenditures in less than 90 days. Therefore, any interest income earned on the deposits of the Federal funds should be submitted to the Federal government.

Questioned Costs

Cannot be determined.

Cause

State DOA program personnel were not aware of the cash management requirements and were also not aware that they are able to draw Federal funds more frequently than on a quarterly basis.

Effect

As a result of the deficiency on internal controls over compliance with grant requirements, we identified 13 instances of noncompliance. These 13 instances resulted in $871 of Federal funds that were advanced to the State, but not disbursed within the administratively feasible time period.

Recommendation

The communications process over Federal grant compliance should be improved. The State DOA should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Sections 205.33.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-14 — Federal Reporting Accuracy (Significant Deficiency)
State DOA

CFDA No. 10.025 — *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Criteria

The State DOA is required to periodically file Federal Form SF-425, *Federal Financial Reports*, with its respective Federal awarding agency.

Condition

During the course of our audit, we examined nine Federal financial reports of which, eight reports did not reconcile to the supporting accounting records. These eight instances resulted in differences of $37,983 between Federal funds that were in the report and the accounting records reported in FAMIS. However, since the reports are not used to request reimbursement, there are no questioned costs.

Questioned Costs

None.

Cause

The lack of supervisory review and unreconciled records of Federal Form SF-425 caused inaccurate reporting to the Federal government.

Effect

Inaccurate reports were submitted to the Federal awarding agency.

Recommendation

Controls related to the preparation and review of Federal reports should be improved. The department should consider improving the design and implementation of Federal reporting internal controls to assure accuracy and completeness of data and information included in reports submitted to the Federal awarding agency.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-15 — Matching (Material Weakness)
State DOA

CFDA No. 10.025 — *Plant and Animal Disease, Pest Control, and Animal Care*
Direct Program from the U.S. Department of Agriculture (Award 08-8510-0586-CA)

Criteria

Grant 09-8510-1056-CA, *Cooperative Agreement — Noxious Weed*, established a 60/40 cost sharing ratio in which the Federal government would contribute $30,750 and the State would contribute $20,500 toward a $51,250 project for the funding period.

Grant 09-8510-1055-CA, *Cooperative Agreement — Citrus Health*, established a 75/25 cost-sharing ratio in which the Federal government would contribute $54,097 and the State would contribute $18,032 toward a $72,129 project for the funding period.

Condition

During the course of our audit, we examined seven cases of awards with matching requirements to be contributed by the State DOA. We noted two instances in which the State's matching requirement was not fulfilled.

- *Cooperative Agreement — Noxious Weed*: $2,311 of State DOA's $20,500 required matching contribution was not made.

- *Cooperative Agreement — Citrus Health*: $15,896 of State DOA's $18,032 required matching contribution was not made.

The total value of the required funds that were not contributed by the State DOA was $18,207. In applying the matching contribution percentage to the contributions not made, the total questioned costs is $51,155 ($2,311 x 60/40 and $15,896 x 75/25).

Questioned Costs

$51,155

Cause

The lack of supervisory review over matching contributions caused inadequate matching contributions.

Effect

The inadequate matched contributions as required by the terms of the Federal award may affect future funding awards.

Recommendation

The supervisory review over Federal matching requirements should be improved by formally communicating the program requirements to program personnel and performing detailed reviews of reports.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-16 — Transfer of Equipment (Significant Deficiency)
State DOD

CFDA No. 12.401 — *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

The compliance requirement within the *National Guard Regulation* (NGR) 5-1, section 7-2 states, “When original or replacement equipment is no longer needed for the Cooperative Agreement, the first priority will be to move the equipment to another federally supported Cooperative Agreement.”

In addition NGR 5-1 states “Grantee recipients will coordinate disposition of State purchased equipment that is no longer authorized or required, with its supporting USPFO”.

Condition

During fiscal year 2010, a motor vehicle was purchased with Army National Guard grant funds and was transferred from the State Army National Guard division to the State Civil Defense division. The State Army National Guard and State Civil Defense are separate operating divisions and the State Civil Defense is not considered to be another federally supported Army National Guard Cooperative Agreement in accordance with NGR 5-1, section 7-2.

In addition, the transfer represents an asset disposition for the Army National Guard. The State DOD did not obtain the required review and approval of the disposal in accordance with NGR 5-1, section 7-2. The carrying value of the motor vehicle approximated $4,900 at the date of transfer.

Questioned Costs

$4,900

Cause

The DOD did not identify the asset as being acquired through Army National Guard funds and, therefore, did not seek the approval from the USPFO before the equipment was transferred.

Effect

The transfers of equipment from the Army National Guard to separate Federal agencies occurred without the review and approval of the USPFO.

Recommendation

The State DOD should implement procedures to ensure that transfers of equipment obtain the proper approvals from the USPFO.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-17 — Property Records (Significant Deficiency)
State DOD

CFDA No. 12.401 — *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

According to the National Guard Regulation 5-1: National Guard Grants and Cooperative Agreements, Section 7-2 "(5) State Military Department purchased equipment, unless otherwise prohibited by State law, will be accounted for as follows: (a) Equipment property records will be maintained, and reported to the USPFO. Reports will include a description of the property, a serial number or other identification number; the source of property, who holds title, the acquisition date, and cost of the property; percentage of federal participation in the cost of the property; the location, use, and condition of the property; and any ultimate disposition data, including the date of disposal and sale price for the property. (b) A physical inventory of the property will be taken and the results reconciled with the USPFO property records at least once every two years."

Condition

We noted that State DOD property records were not reported to the USPFO during fiscal year ended June 30, 2010.

Questioned Costs

Cannot be determined.

Cause

The State DOD was not aware of the requirement to provide the USPFO with a listing of property records.

Effect

The State DOD was not in compliance with its Federal reporting requirements. In addition, the equipment purchased with Federal funds may not be properly controlled and accounted for.

Recommendation

The State DOD should improve its internal controls over compliance with Federal programs regarding property records.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-18 — ARRA Reported Information (Significant Deficiency)
State DOD

CFDA No. ARRA 12.401 — *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

According to the American Recovery and Reinvestment Act of 2009 (ARRA), recipients are required to submit periodic reports to the Federal agency under ARRA Section 1512. Recipients are required to provide the "Total Federal Amount ARRA Funds Invoiced/Received" from the Federal agency, which is the cumulative amount of cash received from the Federal agency as of the reporting period end date. The State DOD must also report the "Total Federal Amount of ARRA Expenditure," which is the cumulative total of Federal fund expenditures.

Condition

ARRA funds were issued by the National Guard Bureau to the State DOD for CFDA 12.401, *National Guard Military Operations and Maintenance Projects*.

The State DOD incorrectly prepared and submitted ARRA Section 1512 reports.

In one instance (for the quarter ended December 31, 2009), the State DOD reported both the "*Total Federal Amount ARRA Funds Invoiced/Received*" amount and the "*Total Federal Amount of ARRA Expenditure*" amount at $1,750,000. The correct amount for *"Total Federal Amount ARRA Funds Invoiced/Received"* was $1,500,000 and the correct amount for *"Total Federal Amount of ARRA Expenditure"* was $0.

In another instance (for the quarter ended June 30, 2010), the State DOD reported the "*Total Federal Amount of ARRA Expenditure*" amount at $1,750,000. The correct amount was $730,015.

Questioned Costs

None.

Cause

The Section 1512 report preparer did not clearly understand how to prepare the report.

Effect

Incorrect amounts were communicated to the Federal agency and the general public.

Recommendation

The State DOD should improve its understanding of the ARRA reporting guidelines and design and implement internal controls to ensure that periodic Federal financial reports are reliable.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-19 – Payroll Certifications (Significant Deficiency)
State DOD

CFDA No. ARRA-12.401 — *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)
CFDA No. 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)
CFDA No. 97.036 – Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1664-DR-HI)
CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Criteria

According to OMB A-87 Attachment B Item 8(h), "(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee."

Condition

We noted that payroll certifications were not completed for employees who solely worked on a single Federal award. From our testing procedures, we selected eight employees who were required to complete a payroll certification. Of the employees that were required to submit a certified payroll, we noted that the required certification was not completed for seven out of the eight employees tested.

Questioned Costs

Cannot be determined

Cause

The nonpreparation of the payroll certification is due to a lack of monitoring by program administrators and supervisory officials to ensure that payroll certifications are completed.

Effect

Incorrect payroll expenditures could potentially be allocated to the Federally funded programs.

Recommendation

Implement a policy that requires all employees who worked on a specific grant program to complete a payroll certification on a semi-annual basis at a minimum.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-20 – Reporting (Significant Deficiency)
State DOD

CFDA No. ARRA-12.401 — *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

The American Recovery and Reinvestment Act (ARRA) prohibits the use of ARRA funds on certain expenditures.

Condition

We noted that the State DOD Contracting Division did not formally communicate the ARRA requirements to the contractors hired for the project.

Questioned Costs

Cannot be determined.

Cause

The State DOD did not have policies or procedures for communicating ARRA requirements to contractors and vendors.

Effect

There is a risk that the ARRA funds were used for prohibited expenditures.

Recommendation

The State DOD should establish and implement controls and policies to ensure that ARRA requirements are formally communicated to the State DOD's contractors and vendors.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-21 – Davis Bacon Act (Significant Deficiency)
State DOD

CFDA No. 12.401 — *National Guard Military Operations and Maintenance Projects*
Direct Program from the U.S. Department of Defense (Award W912J6)

Criteria

The Davis-Bacon Act of 1931 requires that federally funded construction contracts above $2,000 pay prevailing market wage rates to laborers. Grant recipients are required to monitor construction contractors by identifying how compliance will be monitored and the related risks of failure to monitor compliance with the Davis-Bacon Act. Grant recipients are also required to ensure that prevailing wage rate requirements are appropriately communicated to appropriate personnel. Additionally, compliance with the Davis-Bacon Act is to be monitored by appropriate grant-recipient management who understands the Davis-Bacon Act requirement.

Condition

The State DOD engages numerous contractors for various construction projects. State DOD project managers periodically receive certified payroll reports from the contractors. However, State DOD project managers are not consistently reviewing the contractors' submitted certified payroll reports for compliance.

Questioned Costs

Cannot be determined.

Cause

The State DOD lacks formal communicated internal control policies or procedures to monitor contractor compliance with the Davis-Bacon Act. Due to the lack of communicated internal control policies and procedures, certain State DOD project managers are not aware that compliance with Davis-Bacon Act provisions is required. In addition, certain project managers who are aware of the requirement are not able to comply due to lack of resources.

Effect

Without formal and communicated internal control policies and procedures to comply with the Davis-Bacon Act, the State DOD may not be able to ensure that construction contracts are complying with the applicable Federal laws.

Recommendation

Establish and implement internal control policies and procedures to ensure that the project managers are monitoring contractors for compliance with the Davis-Bacon Act. The requirements should be communicated to all the project managers so they are aware of the State DOD's internal control policies and procedures.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-22 — Reporting — Financial Reporting Accuracy (Significant Deficiency)
State DLIR

CFDA No. 17.207, 17.801, 17.804 — *Employment Service Cluster*
Direct Program from the U.S. Department of Labor (Award ES191980955A15)

Criteria

The State DLIR receives funds under the Reed Act, which allows the funds to be used for either unemployment insurance division administrative expenses or unemployment compensation benefit payments. In accordance with "Unemployment Insurance Reports Handbook No. 401", the program is required to file employment and training administration (ETA) 2112 financial reports which requires the reporting of Reed Act funding used for "administrative expenses" and "unemployment benefit payments."

Condition

During the audit, we examined a total of four ETA 2112 financial reports. We identified one report that inaccurately combined administrative expenses and unemployment benefit payments as one line item under "administrative expenses," as opposed to reporting $389,878 as "administrative expenses" and $2,832,229 as "unemployment benefit payments."

Questioned Costs

None.

Cause

The financial reports were not reviewed before they were submitted to the Federal awarding agency.

Effect

The amounts reported in the ETA 2112 financial reports were inaccurate. The amounts identified as being used toward unemployment benefit payments were understated by $2,832,229 for the quarter ended March 31, 2010.

Recommendation

The controls related to supervisory review of reports should be improved. State DLIR should consider improving the design and implementation of internal controls over reporting requirements to ensure accuracy and completeness of data and information included in reports submitted to Federal awarding agency.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-23 —Eligibility for Emergency Unemployment Compensation (Significant Deficiency)
State DLIR

CFDA No. 17.225 — *Unemployment Insurance*
Direct Program from the U.S. Department of Labor (Award UI-18016-09-55-A-15)

Criteria

Section 202(a)(5) of the Federal-State Extended Unemployment Compensation Act of 1970 (26 U.S.C. 3304 note), provides that in order to be eligible for emergency unemployment compensation (EUC), claimants must have, in the base period of their regular claim, one of the following: (1) 20 weeks of full-time employment, (2) wages equal to one and one-half times the highest quarter wages in their base period, or (3) wages equal to forty times their regular weekly benefit amount.

Condition

We noted two claimants who were paid EUC benefits of approximately $33,000 based on questionable eligibility criteria. One claimant was determined eligible based on the 20 weeks of full-time employment (criteria number (1) above); however, sufficient supporting documentation to determine that respective eligibility criteria were met could not be provided. The second claimant was determined eligible based on one and one-half times the highest quarter wages in their base period (criteria number (2) above); however, based on our recalculation, we noted that the claimant did not qualify under the criteria number (2) or (3) above. Further, sufficient supporting documentation to determine that the claimant might instead qualify under the 20 weeks of full-time employment criteria (criteria number (1) above) could not be provided.

Questioned Costs

$33,000

Cause

The EUC program began in June 30, 2008, which resulted in a sudden increase in workload. We were informed that, due to employee turnover, the new rules surrounding the program were still being learned and interpreted by inexperienced personnel.

Effect

Questionable costs of approximately $33,000 were paid from the EUC fund relating to the two identified claimants.

Recommendation

The State DLIR should consider improving the design and implementation of internal controls over eligibility requirement. The program should incorporate periodic training related to EUC eligibility. These trainings should include recent updates and required procedures related to the most recent updates. The trainings should be held periodically or more often as needed (e.g. when new updates to Federal requirements or procedures are incorporated). In addition, supervisory reviews should be conducted timely and thoroughly to ensure the requirements of EUC are being followed.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-24 — Travel Policy (Significant Deficiency)
State DLIR

CFDA No. 17.225 — *Unemployment Insurance*
Direct Program from the U.S. Department of Labor (Award UI-19578-10-55-A-15)

Criteria

The State of Hawaii Procurement Office (SPO) Travel Policy requires a *"Statement of Completed Travel"* along with all applicable worksheets and supporting documents/receipts to be submitted within 10 days upon return to duty for reimbursement of traveler's expenses.

Condition

During the course of our audit, we noted two instances (out of two travel transactions tested) in which the "Statement of Completed Travel" and supporting documents/receipts were not submitted within the 10-day deadline.

Questioned Costs

None.

Cause

We noted that the State DLIR had a separate travel policy (which existed prior to the SPO travel policy), which was not updated. Therefore, the State DLIR personnel were following the State DLIR's outdated travel policy, which required the form and supporting documents/receipts be submitted within 30 days upon return.

Effect

Employees were not complying with the SPO travel policy. This delay in submitting the required travel reports would result in expenditures being reported on an untimely basis.

Recommendation

The State DLIR should rescind its internal travel policy and distribute the SPO travel policy.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-25 – Unwithheld Taxes on Federal Additional Compensation (Significant Deficiency)
State DLIR

CFDA 17.225 — *Unemployment Insurance*
Direct Program from the U.S. Department of Labor (Award UI-18016-09-55-A-15)

Criteria

The Unemployment Insurance Program Letter No. 11-09 provides guidance for implementing and operating the Federal additional compensation (FAC) program. Page A-5, item 6, states that "*the $25 FAC is taxable...consistent with section 3304(a)(18) of the Federal Unemployment Tax Act, withhold taxes from the weekly benefit amount, including the $25 supplement, when an individual elects to have taxes withheld*."

Condition

During the course of the audit, we noted that the State DLIR's benefit payment system did not have the ability to withhold Federal income tax from the $25 FAC payment when elected by an individual. We examined 60 cases in which FAC was paid. Of the 60 cases, 21 claimants elected to have Federal tax withheld from their benefit payments. For these 21 claimants, we noted that Federal income tax was withheld for their regular unemployment insurance or emergency unemployment compensation payments. However, Federal income tax was not withheld from the FAC payments.

Questioned Costs

Cannot be determined.

Cause

Finding is primarily due to the configuration of the State DLIR's benefit payment system, which did not have the capability to withhold Federal income tax from the FAC payment.

Effect

Federal income tax was not withheld from the FAC payments paid to claimants during the year. Therefore, the Federal income tax attributed to the FAC payments will be assessed and collected upon the claimants' filing of his or her Federal income tax return.

Recommendation

Consider reconfiguring the benefit payment system to allow Federal income tax to be withheld from the FAC payments.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-26 – Untimely Submission of Reports (Significant Deficiency)
State DLIR

CFDA 17.225 — *Unemployment Insurance* (Award UI-18016-0955-A15)
CFDA 17.258 – 17.260 — *Workforce Investment Act Cluster* (Award 18635-09-55)
CFDA 17.207, 17.801, and 17.804 — *Employment Services Cluster* (Award ES191980955A15)
Direct Programs from the U.S. Department of Labor

Criteria

Guidelines for the Unemployment Insurance Program, Workforce Investment Act Cluster, and the Employment Services Cluster require the submission of various reports by the specified deadlines.

Condition

During the course of the audit, we noted that the following reports were not submitted timely:

CFDA No.	Report No.	Description	Reporting Period	Days Overdue
17.225	ETA 902	DUA activities under the Stafford Act	Mth ended 7/31/2009	4
17.258-17.260	ETA 9090	Quarterly summary report	Qtr ended 6/30/2010	4
17.207, 17.801, 17.804	VETS 402	Expenditure register report	Qtr ended 3/31/2009	31
17.207, 17.801, 17.804	VETS 402	Expenditure register report	Qtr ended 6/30/2010	20

Questioned Costs

None

Cause

Finding is primarily a result of the lack of resources and oversight over the timely submittal of financial and performance reports.

Effect

The State DLIR is not compliant with its Federal reporting requirements. Untimely submittal of financial and performance reports may result in untimely communication of financial and progress information for federally funded programs.

Recommendation

The State DLIR should improve internal controls over financial reporting to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-27 — Equipment Management: Lack of Physical Inventory (Significant Deficiency)
State DLIR

CFDA 17.258 – 17.260 — *Workforce Investment Act (WIA) Cluster*
Direct Program from the U.S. Department of Labor (Award 18635-09-55)

Criteria

OMB Circular A-133, *Compliance Supplement*, Section F, *Equipment and Real Property Management*, requires that a physical inventory of equipment acquired under Federal awards be taken at least every two years.

Condition

The majority of the WIA program's equipment resides in the main fiscal office. We noted that a physical inventory was taken for this main fiscal office. However, no physical inventory was taken at the different WIA program branches within the last two years. According to the annual physical inventory certification sheet, the last physical inventory at the different branches was completed and certified on April 28, 2008, for inventory balances as of December 31, 2007.

Questioned Costs

Cannot be determined.

Cause

There was a lack of personnel resources to conduct the physical inventory.

Effect

Failure to perform a physical inventory will result in possible unknown differences of actual inventory versus recorded inventory.

Recommendation

The State DLIR should adhere to policy to ensure physical inventories are performed of equipment acquired under Federal awards at least every two years.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-28 — Untimely Submission of Reports (Significant Deficiency)
State DBEDT

CFDA 81.041, State Energy Program
Direct Program from the U.S. Department of Energy (Award DE-EE0000216)

Criteria

The State Energy Program Grant Agreements require the submission of various reports by the specified deadlines.

Condition

During the course of the audit, we examined 12 reports submitted. Four were submitted for: financial reporting, four for ARRA reporting, and four for performance reporting compliance . We noted that the following reports were not submitted timely:

CFDA No.	Report No.	Description	Reporting Period	Days Overdue
81.041	SF-425	Federal financial report	Qtr ended 3/31/2010	61
81.041	SF-425	Federal financial report	Qtr ended 6/30/2010	75
81.041	n/a	Performance progress report	Qtr ended 9/30/2009	92
81.041	n/a	Performance progress report	Qtr ended 3/31/2010	76
81.041	n/a	Performance progress report	Qtr ended 6/30/2010	199

Questioned Costs

None

Cause

Finding is primarily a result of the lack of resources and oversight over the timely submittal of financial and performance reports.

Effect

The untimely submittal of financial and performance reports may result in untimely communication of financial and progress information for federally funded programs.

Recommendation

The State DBEDT should improve internal controls over financial reporting to ensure that all required financial and performance progress reports are prepared, reviewed, and submitted prior to reporting deadlines.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-29 — Federal Reporting Inaccuracy (Significant Deficiency)
State DLIR

CFDA No. 81.042 — *Weatherization Assistance for Low-Income Persons*
Direct Program from the U.S. Department of Energy (Award DE-EE0000183)

Criteria

The State DLIR is required to periodically file Federal Form SF-425, *Federal Financial Reports*, with the Federal government in accordance with the report instructions.

Condition

We examined two Federal financial reports (Form SF-425), non-ARRA, which did not reconcile with the Federal ledger sheet and were submitted inaccurately. In one instance, for quarter ended March 31, 2010, the State DLIR reported $328,792 for the "Federal share of expenditures." The correct amount per the Federal ledger sheet was $341,287, a difference of $12,495. In another instance, for quarter ended June 30, 2010, State DLIR reported $0 "Federal share of expenditures." The correct amount was $361,611.

Questioned Costs

None.

Cause

The lack of supervisory review of Federal Form SF-425 caused inaccurate reporting to the Federal government.

Effect

The amount of Federal expenditures reported during fiscal year 2010 was understated by $374,106.

Recommendation

Controls related to the supervisory review of reports should be improved. The State DLIR should consider improving the design and implementation of reporting internal controls to ensure accuracy and completeness of data and information included in reports submitted to Federal awarding agency.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-30 — Communicating CFDA Numbers to Subrecipients (Significant Deficiency)
Office of the Governor

CFDA No. 84.394 and 84.397 — *State Fiscal Stabilization Fund Cluster*
Direct Program from the U.S. Department of Education (Awards S394A090012 and S397A090012)

Criteria

According to OMB Circular A-133, a pass-through entity shall perform the following for the Federal awards it makes:

- Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is for research and development, and name of Federal agency.
- Identify ARRA funds provided by the subaward and advise the subrecipient of the requirement to identify ARRA funds in their SEFA.
- Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.
- Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

Condition

For certain grants, the Governor's Office primarily acts as a pass-through entity: receiving monies from the Federal government and passing funds to other State departments to administer the grants (such as the Department of Education, the University of Hawaii, and other nongovernmental agencies such as Charter

School Administrative Office (CSAO)). The pass-through transactions were documented in Memorandum of Agreements between the Governor's Office, State Department of Education, University of Hawaii, and CSAO.

Upon examination of the Memorandum of Agreements, we noted that the Governor's Office did not formally communicate the following to the State Department of Education, University of Hawaii, and CSAO:

- CFDA number
- Requirements for subrecipients to include on their SEFA information to specifically identify ARRA funding

Questioned Costs

None.

Cause

The author of the Memorandum of Agreements was not aware that Federal award information was required to be communicated to the subrecipients.

Effect

By not communicating the Federal award information, it increases the risk that the subrecipients will not be aware of the OMB Circular A-133 requirements and therefore may unknowingly not comply with the grant requirements.

Recommendation

The Governor's Office should ensure that communication to subrecipients include all required Federal award information and compliance requirements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-31 — Subrecipient Monitoring (Significant Deficiency)
Office of the Governor

CFDA No. 84.394 and 84.397 — *State Fiscal Stabilization Fund Cluster*
Direct Program from the U.S. Department of Education (Award S394A090012 and S397A090012)

Criteria

OMB Circular A-133 requires that a pass-through entity is responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient's audit period.

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report.

- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

The Governor's Office did not identify all subrecipients requiring an OMB Circular A-133 audit. Further, the Governor's Office had not performed follow-up procedures to ensure that its subrecipients had obtained an audit under OMB Circular A-133 or reviewed subrecipient corrective action plans.

Questioned Costs

Cannot be determined.

Cause

The Governor's Office was not aware that subrecipient monitoring rules applied to the State Department of Education, University of Hawaii, and CSAO.

Effect

Without monitoring of subrecipients, including subrecipient State departments, the Governor's Office may not be made aware of instances of noncompliance or hold subrecipients accountable for corrective action plans.

Recommendation

The Governor's Office should implement procedures to allow for timely monitoring of subrecipients.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-32 — Central Contractor Registration (Significant Deficiency)
Office of the Governor

CFDA No. 84.394 and 84.397 — *State Fiscal Stabilization Fund Cluster*
Direct Program from the U.S. Department of Education (Award S394A090012 and S397A090012)

Criteria

OMB Circular A-133, *Compliance Supplement* — Part 3 M, *Subrecipient Monitoring*, indicates that a pass-through entity is responsible for notifying to first-tier subrecipients the requirement to register in the central contractor registration (CCR), including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information.

Additionally, the Code of Federal Regulations, Section 176.50(c) indicates that recipients and their first-tier recipients must maintain current registrations in the Federal CCR database at all times during which they have active Federal awards funded with ARRA funds. A DUNS number is one of the requirements for registration in the CCR.

Condition

The Governor's Office passed through ARRA funds to the subrecipient State agencies, the State Department of Education, University of Hawaii, and CSAO during the year ended June 30, 2010, but did not check if the subrecipients were registered in the CCR. We noted that the CSAO did not maintain current registration at all times during which they had active Federal awards funded with ARRA funds and had a registration that expired on June 10, 2010.

Questioned Costs

None.

Cause

Initially, the State Department of Education, University of Hawaii, and CSAO were not considered subrecipients and, therefore, monitoring activities of these entities were not conducted. Further, as the State Department of Education and University of Hawaii, were already receiving other Federal grants, the Governor's Office assumed that no further communication or monitoring was necessary.

Effect

Inadequate monitoring of subrecipients, including CCR registrations, may result in violations of compliance requirements not being identified or corrected on a timely basis.

Recommendation

The State Governor's Office should update agreements with subrecipients to ensure compliance information and requirements are properly obtained and communicated.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-33 — Equipment Records (Significant Deficiency)
State DOD

CFDA No. 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Criteria

The State DOD contracts with vendors indicate that "all equipment, furniture, and supplies purchased with contract funds under this Agreement shall remain the property of the State (DHS/TANF). The provider shall transfer possession of equipment, furniture, and supplies purchased by the contract funds upon termination of the contract to the DOD." In addition, the State DOD is required to ensure that equipment is adequately safeguarded and maintained, that disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and that the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-federal use.

Condition

During fiscal year 2010, the State DOD provided Federal funds to two separate vendors who used funds to purchase equipment in connection with the TANF program. However, the State DOD did not maintain records to track the equipment that the vendor purchased with DOD's Federal funds. Therefore, the State DOD is unable to determine the total amount of Federal expenditures used to purchase equipment, furniture, and supplies, made by each vendor. Total expenditures made to the vendors were $4,783,273 during fiscal year 2010.

Questioned Costs

Cannot be determined.

Cause

The State DOD did not establish internal controls in order to maintain accountability over assets purchased with Federal funds.

Effect

Without maintaining accurate and complete equipment purchases, the State will have difficulty identifying its equipment held by vendors. Additionally, the State DOD may not properly compensate the Federal awarding agency for any property sold or converted to non-Federal use.

Recommendation

The State DOD should improve internal control procedures to account for assets purchased with Federal funds.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-34 —Unallowable Payroll Costs (Significant Deficiency)
State DOD

CFDA No. 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Criteria

According to the OMB Circular A-87, Attachment A, paragraph C, *Basic Guidelines*, "To be allowable under Federal awards, costs must meet the following general criteria: a) be necessary and reasonable for proper and efficient performance and administration of Federal awards."

According to the OMB A-87 Attachment B Item 8(h), "(3) where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification."

Condition

During fiscal year 2010, two employees were 100% funded by the TANF grant program. We noted that these employees worked a portion of their time on a grant program that was not affiliated with the TANF grant program. The total salary amount related to work performed on other grant programs was $17,134 at 453 hours for the two employees. These payroll costs should have been allocated to the other grant programs as opposed to the TANF grant.

Questioned Costs

$17,134

Cause

In an effort to reduce payroll costs, State employees were placed on a furlough program whereby they would work less than 40 hours in certain weeks. In addition, the State had a hiring freeze on vacant positions. In order to complete necessary work, the TANF funded employees were required to work on other grants and programs.

Effect

This resulted in $17,134 being charged to the TANF grant for work that was unrelated to the TANF program and therefore considered unallowable under OMB Circular A-87.

Recommendations

The State DOD should ensure that accurate payroll records are maintained for purposes of properly allocating personnel costs to the respective programs and grants.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-35 — Cash Management (Significant Deficiency)
State DOD

CFDA No. 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Criteria

The U.S. Department of the Treasury regulations at 31 CFR Sections 205.33, for cash management compliance, require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds and requires a State to minimize the time between the drawdown of Federal funds from the Federal government and the State's disbursement of the funds for Federal program purposes. Therefore, the timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition

During the audit, we identified an instance where the State DOD requested $499,477 in Federal funds from the State Department of Human Services (DHS) in April 2009, but did not expend the requested funds until April 2010. The one-year time span between requesting funds and expending funds appears longer than "administratively feasible." Therefore, any interest income earned on the deposit should be submitted to the Federal government.

Questioned Costs

Cannot be determined.

Cause

The State's accounting information system separately identifies Federal and State appropriation codes. For budgeting purposes, appropriation codes are established before State agencies can encumber and expend funds. The DAGS's current practice is that Federal appropriation codes can encumber and commit funds prior to receiving funding from the Federal government. State appropriation codes require funds to be held in the State Treasury prior to encumbering or committing amounts.

The State DOD is a subrecipient of the TANF Federal funding, which is transferred to State DOD from the State DHS. Since the Federal funds were transferred between the State DOD and State DHS, the appropriation accounts were identified as a State appropriation as opposed to a Federal appropriation. In order to encumber contracts for the TANF appropriation the State DOD was required to prefund the appropriation and requested funding in advance. This caused the appropriation to be funded for $499,477, 12 months prior to the money being used.

Effect

The advance of funds by the Federal government were deposited in the State Treasury, and thus earned interest for the year. However, this interest income does not represent additional funds available to the State DOD, but must be remitted to the Federal government.

Recommendation

The State should improve internal controls over accounting for Federal and State appropriations in its accounting information system to separately identify Federal awards by grant award.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-36 — Untimely Submission of Reports (Significant Deficiency)
State DOD

CFDA 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Criteria

Guidelines for the TANF grant require the submission of various reports by the specified deadlines.

Condition

During the course of the audit, we noted that the following reports were not submitted timely:

CFDA No.	Report No.	Description	Reporting Period	Days Overdue
93.558	n/a	Monthly financial Report	7/16/2009	32
93.558	n/a	Monthly financial Report	8/31/2009	44
93.558	n/a	Monthly Financial Report	1/31/2010	32
93.558	n/a	Monthly Financial Report	6/30/2010	171
93.558	n/a	Performance/Progress Reports	Qtr Ended 9/30/2009	550
93.558	n/a	Performance/Progress Reports	Qtr Ended 3/31/2010	368

Questioned Costs

Cannot be determined.

Cause

Finding is primarily a result of the lack of resources and oversight over the timely submittal of financial and performance reports.

Effect

The State DOD is not compliant with its Federal reporting requirements. Untimely submittal of financial and performance/progress reports may result in untimely communication of financial and progress information for Federally funded programs.

Recommendation

The State DOD should improve internal controls over financial reporting to ensure that all required financial reports are prepared, reviewed, and submitted prior to reporting deadlines.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-37 — Reconciliation of Reimbursements (Significant Deficiency)
State DOD

CFDA No. 93.558 — *Temporary Assistance for Needy Families (TANF) Cluster*
Pass-Through Program from the U.S. Department of Health and Human Services/State Department of Human Services (Award DHS-10-ETPO-125)

Criteria

OMB Circular A-133 requires that an appropriate level of supervisory review of cash management activities should occur periodically. The review should include reconciling reimbursement requested to reimbursement received.

Condition

State DOD submits monthly expenditure reports to the State DHS in order to request Federal funds. The State DHS transfers the funds to the State DOD using the State of Hawaii journal voucher form. We noted two instances (dated March 19, 2010 and January 18, 2011), in which no reimbursement was received (as of the date of testing) from the State DHS after the State DOD sent in the reimbursement requests.

Questioned Costs

None

Cause

We noted that there is no control in place by the State DOD to reconcile the reimbursements requested to the reimbursements actually received.

Effect

If reconciliations are not performed between the reimbursement requested and the request received, there is a possibility that the State DOD will be unaware of the outstanding amounts due from State DHS.

Recommendation

Design and implement controls and procedures to reconcile reimbursements requested and reimbursements received from the State DHS.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-38 — Subrecipient Monitoring: No On-Site Review Performed (Significant Deficiency)
State DLIR

CFDA 93.569 — *Community Services Block Grant (GSBG)*
Direct Program from the U.S. Department of Health and Human Services (Award G10B1HICOSR)
CFDA 81.042 — *Weatherization Assistance for Low-Income Persons*
Direct Program from the U.S. Department of Energy (Awards DE-EE0000176 and DE-EE0000183)

Criteria

The State DLIR's GSBG and weatherization assistance for low-income persons' agreements require that full on-site reviews of subrecipients be performed at least once every three years. Such reviews should include administrative, fiscal, personnel, and program components.

Condition

We noted that while the State DLIR monitored the subrecipients by communicating via telephone and e-mail frequently, physical on-site reviews were not performed within the last three years for the two of the program's four subrecipients. The last on-site reviews for these two subrecipients were in September 2006.

Questioned Costs

None.

Cause

The onsite reviews were not performed in an effort to manage costs.

Effect

The State DLIR is not compliant with its own program proposal, which specified the onsite reviews.

Recommendation

Perform onsite reviews of all subrecipients at least once every three years in accordance with the program proposal.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-39 — Earmarking (Significant Deficiency)
State DLIR

CFDA 93.569 — *Community Services Block Grant* (CSBG)
Direct Program from the U.S. Department of Health and Human Services (Award G10B1HICOSR)

Criteria

The CSBG limits administrative expenses to the greater of $55,000 or 5% of CSBG funds.

Condition

During our testing, we noted that administrative expenses exceeded the maximum amount. We were informed that total administrative expenses exceeded the maximum requirement because the recorded balance included carry-over amounts that were not utilized in the prior years. We further noted that there were no records to track the carry-over amounts from prior years. Therefore, compliance with this requirement could not be determined.

Questioned Costs

Cannot be determined.

Cause

The accounting and tracking of unutilized administrative carry-over amounts were not maintained.

Effect

Potentially administrative expenses may be exceeded the maximum amounts and, therefore, should be unallowable.

Recommendation

Maintain appropriate accounting and tracking of all administrative expenses, including any amounts being carried over to the next year.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-40 — Cash Management (Significant Deficiency)
State DLNR

CFDA No. 94.006 — *AmeriCorps*
Pass-Through Program from the Research Corporation of the University of Hawaii
(Award 07ACHHI0010001)

Criteria

The U.S. Department of the Treasury regulations at 31 CFR Sections 205.33 (for cash management compliance) requires State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds. In accordance with U.S. Department of the Treasury regulations at 31 CFR Sections 205.33, a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes.

A Federal program agency must limit funds transferred to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition

During our audit, we examined six selections of cash drawdowns where the State DLNR drew down Federal funding to reimburse its subrecipient for their program related spending. We identified one instance where 120 days elapsed between the Federal cash draw down and the reimbursement to the subrecipient. Therefore, any interest income earned on the deposit should be submitted to the Federal government.

Questioned Costs

Cannot be determined.

Cause

The State DLNR grant program personnel were not aware of cash management requirements and were not aware that they had not reimbursed the subrecipients Federal spending timely.

Effect

As a result of the deficiency on internal controls over compliance with grant requirements, we identified one instance of noncompliance. This instance resulted in $45,238 of Federal funds that were drawn from the Federal government by the State, but not reimbursed to the subrecipient within the administratively feasible time period.

Recommendation

The communications process over Federal grant compliance should be improved. The State DLNR should consider improving the design and implementation of cash management internal controls, to minimize the time lag between Federal fund drawdown and disbursement in accordance with 31 CFR Sections 205.33.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-41 — Subrecipient Monitoring (Significant Deficiency)
State DLNR

CFDA No. 94.006 — *AmeriCorps*
Pass-Through Program from the Research Corporation of the University of Hawaii
(Award 07ACHHI0010001)

Criteria

According to OMB Circular A-133, a pass-through entity shall perform the following for the Federal awards it issues:

- Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is in research and development, and name of Federal agency.
- Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.
- Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

Condition

The State DLNR acts as a pass-through entity, receiving monies from the Federal government and passing funds to a not-for-profit subrecipient. The pass-through transaction was documented in a contractual agreement between the State DLNR and their not-for-profit subrecipient.

Upon examination of the contract, we noted that the State DLNR did not formally communicate the following to the subrecipient:

- CFDA title and number
- Award name and number
- Name of Federal awarding agency

- Requirements imposed by laws, regulations
- Provisions of contract or grant requirements
- Allowable activities approved in the Federal award documents

Questioned Costs

Cannot be determined.

Cause

The State DLNR initially considered the subrecipient to be a vendor, and as such they were not required to follow the pass-through requirements of OMB A-133 pertaining to Federal funding. Through further evaluation it was determined that the State DLNR vendor was a subrecipient.

Effect

Withholding Federal award information from subrecipients increases the risk that subrecipients are unknowingly noncompliant with grant requirements and do not obtain a single audit in accordance with OMB A-133.

Recommendation

DLNR should ensure that communication to subrecipients include all required Federal award information and compliance requirements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-42 — Period of Availability (Significant Deficiency)
State DOD

CFDA No. 97.036 – Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1664-DR-HI)

Criteria

According to the Federal Emergency Management Agency (*FEMA) Public Assistance Guide* Chapter 5 Page 138, disaster grant work is required to be completed within the following time frame from the date of declaration of the disaster.

Type of Work	Category	Original Completion Deadline	Time Extension (Approved by SCD)
Debris clearance	A	6 months	6 months
Emergency work	B	6 months	6 months
Permanent work	C-G	18 months	30 months

Any work completed beyond the original completion deadline must be approved by State Civil Defense (SCD) agency of the State DOD and must be approved by the FEMA.

Condition

We identified one instance for permanent work that had a completion requirement of 18 months. The subrecipient completed the underlying obligations of the contract beyond the 18-month period; however, no time extension request letter was submitted to FEMA. The total amount of the contract that was performed beyond the required 18-month period was $14,505.

Questioned Costs

$14,505

Cause

FEMA establishes a 'small contract' threshold for each disaster. For contracts below the threshold, funding is advanced directly to subrecipients. Once the Federal money is advanced to a subrecipient, the State DOD does not monitor when the subrecipient completes the contracted work.

Effect

Completing the work beyond the allowable time period is not in compliance with the FEMA public assistance guide.

Recommendation

The SCD should improve the frequency of its detailed reviews for small contracts to ensure that all required contracted work is performed within the allowable time period.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-43 — Subrecipient Monitoring of Procurement (Significant Deficiency)
State DOD

CFDA No. 97.036 – Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1664-DR-HI)

Criteria

According to Hawaii Administrative Rules (HAR) 3-122-90 Subchapter 10 *Emergency Procurement Procedures*, "Prior to the procurement or if time does not permit, as soon as practicable thereafter, the head of the purchasing agency responsible for the emergency procurement shall prepare a written determination requesting the approval from the chief procurement officer, indicating the following: (1) nature of the emergency; (2) name of contractor; (3) amount of expenditure; (4) listing of the good, service, or construction; and (5) reason for selection of the contractor."

According to 44 CFR 13.36 *Emergency Management and Assistance*, under paragraph (b) *Procurement standards*, “(1) Grantees and subrecipients will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.” Further, within 44 CFR 13.36 for Emergency Management and Assistance, “(9) Grantees and subrecipients will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”

Condition

The SCD is required to monitor the procurement procedures of subrecipients to ensure that the State’s procurement regulations were followed. During the fiscal year ended June 30, 2010, the County of Kauai, a subrecipient of SCD, used State pass-through Federal funds for a $12,833 emergency procurement purchase.

The SCD did not monitor the County of Kauai to ensure that they prepared a written determination requesting the approval from the chief procurement officer indicating the following: (1) nature of the emergency; (2) name of contractor; (3) amount of expenditure; (4) listing of the good, service, or construction; and (5) reason for selection of the contractor.

Questioned Costs

$12,833

Cause

The SCD did not request its subrecipient to submit procurement documentation.

Effect

Without correspondence from subrecipients, the SCD may not be able to determine if procurement regulations were followed.

Recommendation

The SCD should improve its policies and procedures over monitoring procurement by subrecipients.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-44 — Subrecipient Monitoring (Significant Deficiency)
State Department of Defense

CFDA No. 97.036 – Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1664-DR-HI)

Criteria

According to OMB Circular A-133, a pass-through entity shall perform the following for the Federal awards it makes:

- Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is for research and development, and name of Federal agency.
- Identify ARRA funds provided by the subaward and advise the subrecipient of the requirement to identify ARRA funds in their SEFA.
- Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.
- Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

Condition

For certain grants, the State DOD acts as a pass-through entity, passing Federal funds it receives to non-government subrecipients. We selected a sample of seven subrecipient transactions to examine for compliance with subrecipient monitoring requirements. We identified seven instances of noncompliance, a 100% deviation rate, where the State DOD did not provide CFDA numbers to its subrecipients.

Questioned Costs

Cannot be determined.

Cause

The CFDA number was not included within any of the documentation provided to the subrecipient as the State DOD was not aware that documents to subrecipients required the CFDA number.

Effect

By not communicating the Federal award information, it increases the risk that the subrecipients will not be aware of the OMB Circular A-133 requirements and therefore may unknowingly not comply with the grant requirements.

Recommendation

The SCD should communicate CFDA numbers to its subrecipients. Additionally, the State SCD should conduct periodic training on the requirements and procedures related to monitoring subrecipient communications.

Views of Responsible Officials and Planned Corrective Action

Refer to the Attached Response.

2010-45 — Subrecipient Monitoring of Audits (Significant Deficiency)
State Department of Defense

CFDA No. 97.036 – Disaster Grants — *Public Assistance (Presidentially Declared Disasters)*
Direct Program from the U.S. Department of Homeland Security (Award FEMA-1664-DR-HI)

Criteria

OMB Circular A-133 requires that a pass-through entity is responsible for the following:

- Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient's audit period.

- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report.

- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

During fiscal year 2010, six individual disasters were funded by SCD under CFDA 97.036. The total amount expended was $2,636,054 in fiscal year 2010 of which $1,346,894 was passed on to subrecipients. SCD maintains records of Federal funds passed to subrecipients by the six individual disasters; however, SCD does not maintain cumulative amounts of the total amount of funding passed on to each subrecipients, nor does SCD track how much of the Federal funds were expended by each of these recipients for all the disasters. SCD does inform the subrecipients that they must obtain an audit if they expend more than $500,000 in a year, however, the SCD does not monitor to ensure that the subrecipients are complying with the compliance requirements by requesting an audit report or following-up on findings.

Questioned Costs

Cannot be determined.

Cause

Due to miscommunication between the SCD and State DOD fiscal office, the SCD office assumed the reports were reviewed by the State DOD fiscal office. However, the fiscal office was not monitoring this compliance requirement.

Effect

The SCD office and State DOD fiscal office did not monitor subrecipients expending greater than $500,000 within a fiscal year. Without monitoring of subrecipients, the State DOD may not be made aware of instances of noncompliance or are not able to hold subrecipients accountable for corrective action plans.

Recommendation

The SCD office should maintain a cumulative listing for each subrecipient to identify which subrecipients received and expended over $500,000 in Federal funding. This listing should be used to monitor that subrecipients obtain a compliance audit and that the compliance requirements are addressed.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-46 — Procurement (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Criteria

According to the 44 CFR 13.36 for Emergency Management and Assistance, Paragraph (b) *Procurement Standards*, "(1) Grantees and subrecipients will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section."

Further, within 44 CFR 13.36 for Emergency Management and Assistance, "(9) Grantees and subrecipients will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

Condition

During fiscal year 2010, the State DOD Homeland Security Division (DOD HSD) received $12,280,946 in Federal funding under CFDA 97.067 of which $10,836,133 was passed through to subrecipients. The DOD HSD communicates that subrecipients are responsible for following the State procurement regulations in accordance with 44 CFR 13.36. The DOD HSD does not obtain, review, or maintain supporting documentation on subrecipient procurement procedures to verify that subrecipients followed the required procurement guidance. During our audit, we selected 40 transactions to review procurement. Of the 40 selections, 28 did not have supporting documentation from the subrecipient indicating that the proper procurement procedures had been followed.

Questioned Costs

Cannot be determined.

Cause

DOD HSD's does not have a well-defined policy to monitor subrecipient's procurement procedures. DOD HSD determined that subrecipients are responsible for understanding and applying the State procurement regulations.

Effect

Since DOD HSD does not require subrecipients to provide procurement supporting documentation, DOD HSD is unable to monitor subrecipient procurement compliance.

Recommendation

The DOD HSD should design and implement internal control procedures that require subrecipients to provide procurement supporting documentation.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-47 — Earmarking (Material Weakness)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Criteria

CFDA No. 97.067, *Homeland Security Grant*, awarded $12,935,242 for the Homeland Security Grant Program, Urban Area Security Initiative, Citizen Corp Program, Metropolitan Medical Response System, and Law Enforcement Terrorism Prevention Program. Of the total award, one grant contained an earmarking requirement that at least 10% of the grant award ($1,293,524) should be expended for Emergency Medical Services (EMS) providers. The grant period for the fiscal award year 2006 began on July 1, 2006, and ended on June 30, 2010.

Condition

The 2006 Homeland Security Department's Federal award concluded on June 30, 2010. We examined the earmarking requirement, noting that the earmark requirement was not met. When the award's funding ended on June 30, 2010, the total life to date of Federal expenditures made to EMS providers was $532,330, which was $761,194 less than the required earmarked amount of $1,293,524.

Questioned Costs

$761,194

Cause

The State DOD HSD was not aware of the earmarking requirement.

Effect

The DOD HSD did not comply with the earmarking provisions of its Federal award. Additionally, without effective internal controls over Federal programs, the State may not be able to comply with future earmarking requirements.

Recommendation

The State DOD HSD should improve its internal controls over compliance of Federal requirements over earmarking requirements.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-48 — Procurement "Piggybacking" (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Criteria

According to the Hawaii Administrative Rules (HAR) Chapter 3-128-2 Cooperative Purchasing Subject to Chapter 103D, HRS, "(d) Agencies shall not enter into or piggyback on an existing cooperative purchasing agreement, including contracts issued by the Federal government or other State or local government. The term "piggyback" is defined as procuring goods, services, or construction using another agency contract without prior public notice and intent to participate."

Condition

During the fiscal year ended June 30, 2010, we identified an instance where the DOD HSD "piggybacked" on a State of Arkansas contract to purchase supplies and equipment from a vendor.

The U.S. Office of Domestic Preparedness (ODP) entered into an agreement with the Defense Logistics Agency, Defense Supply Center Philadelphia (DSCP) to allow ODP state and local grant recipients to procure services through DSCP. State and local recipients of ODP equipment grant funding are allowed to use DSCP prime vendors and other logistic support programs to expedite shipment purchases using grant funds. The purpose of this program is to provide ODP grant recipients with cost and timesaving equipment procurement options. The State of Arkansas Procurement Office through DSCP contracted a vendor for the purchase of various brand name laboratory supplies and homeland security equipment. The DOD "piggybacked" off of the existing DSCP arrangement to purchase supplies from the vendor.

Questioned Costs

Cannot be determined.

Cause

State DOD fiscal procurement personnel were not aware of the State's HAR prohibiting "piggybacking" on existing cooperative purchasing agreements.

Effect

The DOD HSD may not have been in compliance with procurement regulations as outlined HAR 3-128-2. The instance on noncompliance was reported to the Hawaii State Procurement Office and the "piggyback" arrangement with the equipment program and vendor was subsequently ended.

Recommendation

The DOD should improve its procurement training programs for program and procurement personnel.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-49 — Cash Management (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Criteria

The U.S. Federal Homeland Security (USFHS) awards a lump sum amount each year to the DOD HSD. Within the grant documentation, the USFHS details the amount to be spent on each program with a time frame of 36 months to spend the approved amount. The DOD HSD and its fiscal office are responsible for monitoring the spending and ensuring that the amounts spent on each program are in accordance with the grant documentation.

Condition

The DOD HSD grant CFDA No. 97.067 consists of following programs:

1. State Homeland Security Program (SHSP)
2. Law Enforcement Terrorism Protection Program (LETPP)
3. Citizens Corp Program (CCP)
4. Urban Areas Security Initiative Program (UASI)
5. Metropolitan Medical Response System Program (MMRS)

The State DOD accounts for the separate programs using the same State appropriation code. Federal reimbursements for each program are requested separately by the State. During the audit, we noted two (out of 40 selections) in which the cash balance for two programs were low and therefore invoices paid for these programs were paid out of the combined cash balance from other programs recorded in the particular common State appropriation code. The instances related to the LETPP program ($25,146) and the UASI program ($302,118).

Questioned Costs

None.

Cause

Due to a lack of personnel throughout fiscal year 2010, the State DOD fiscal office did not have adequate resources to monitor the cash balances within the appropriation code to identify that drawdowns for the LETPP and UASI programs were not submitted prior to the invoices being paid out. As a result, the invoices were paid in advance of receiving the funds from the Federal government. In addition, the State DOD fiscal office did not adequately review the monthly draw down requests to ensure that the adequate amount for Federal funding was drawn each month.

Effect

Invoices for the LETPP program and the UASI program were paid from cash balances related to other programs.

Recommendation

The State DOD fiscal office should implement internal controls over State appropriations, which will allow the department to monitor State appropriations that accounts for Federal funding from multiple programs and grants. The controls should be designed to ensure that State DOD fiscal office can track the spending to each specific program within the State appropriation.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-50 — Reporting (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Criteria

The State DOD is required to periodically file Federal Form SF-425, *Federal Financial Reports*, with the Federal government in accordance with the report instructions. The Federal Financial Report SF-425 includes line items called "cash receipts," "cash disbursements," and "cash on hand" within the report. "cash on hand" represents the cash receipts amount, which was drawn down from the Federal agency, subtracted by the "cash disbursements" amount, to arrive at the "cash on hand" balance.

Condition

The State DOD did not complete the SF-425 report correctly for its December 31, 2009 and March 31, 2010, quarter-end reports. When the forms were completed, the State DOD incorrectly reported "cash receipts" to match the "cash disbursements," which resulted in a "cash on hand" amount ("cash receipts" subtracted by "cash disbursements") of $0. However, the correct "cash on hand" amounts were $180,879 and $164,099, respectively.

Questioned Costs

None.

Cause

Due to a misunderstanding of the report requirements, the preparer of the report believed that all funds drawn down were immediately disbursed and, therefore, automatically reported "cash on hand" as $0. However, the preparer did not realize that timing differences exist which may result in available "cash on hand."

Effect

Inaccurate amounts in the SF-425 Federal Financial Reports were communicated to the Federal government for the December 31, 2009 and March 31, 2010, quarter-end reports.

Recommendation

The State DOD should incorporate periodic training related to Federal reporting requirements. These trainings should include recent updates and required procedures related to the most recent updates. The trainings should be held periodically (at least annually) or more often as needed (e.g., when new updates to Federal reporting requirements are incorporated). Further, there should be more communication between the fiscal office and the State DOD in order to ensure accurate amounts are reported within these financial reports.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

2010-51 — Reporting (Significant Deficiency)
State Department of Defense

CFDA No. 97.067 — *Homeland Security Grant Program*
Direct Program from the U.S. Department of Homeland Security (Award 2007GET70013)

Criteria

In accordance with the Homeland Security grant guidance, all non-federal agencies who perform exercise activities must submit an after action report (AAR) and improvement plan (IP) for each exercise conducted with FEMA support within 60 days following the exercise. According to the fiscal year 2007 Homeland Security Grant Program — *Program Guidance and Application Kit*, "the AAR documents the performance of exercise related tasks and makes recommendations for improvements. The IP outlines the actions that the exercising jurisdiction(s) plans to take to address recommendations contained in the AAR."

Condition

We noted that one of the State DOD DHS' subrecipients conducted an exercise activity using FEMA support. This activity required the submission of the AAR and IP reports. However, these required reports were not submitted.

Questioned Costs

None

Cause

The reports were not submitted due to lack of resources to prepare the reports.

Effect

The required evaluation information contained within the AAR and the IP reports were not reported.

Recommendation

Establish and implement procedures to ensure the required reports are submitted on a timely basis.

Views of Responsible Officials and Planned Corrective Action

Refer to the attached response.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

2009-1 State Treasury Investment Income (Significant Deficiency)

Condition

During fiscal year 2009, State B&F FAD failed to allocate investment earnings to each State agency's Treasury investment pool appropriation account in accordance with their policy. As of June 30, 2009, State B&F FAD allocated approximately $11.7 million of interest earnings to the general fund and did not allocate interest earnings to the remaining pool participants such as the special revenue funds. We further noted that the Treasury investment pool earnings had not been calculated or allocated to the Treasury investment pool participant accounts since January 31, 2009, five months before the end of fiscal year 2009.

Status

Accomplished. The fiscal year 2010 and fiscal year 2011 allocation of investment earnings to each State agency's Treasury investment pool appropriation account was completed by September 2011.

2009-2 Accounting for Accrued Liabilities (Significant Deficiency)

Condition

During the audit, it was determined that the June 30, 2009, accrued liability schedules submitted to State DAGS Accounting Division from the Department of Human Services (DHS), State DAGS (another division other than State DAGS accounting), and Department of Education (DOE), were not complete and accurate. We noted that the following fiscal year 2009 liabilities were initially omitted from the accrued liability schedules submitted to the State DAGS Accounting Division.

- Approximately $2 million from State DAGS fiscal office for construction invoices
- Approximately $702,000 from DHS MedQuest Division
- Approximately $69 million from DOE for accrued teacher salaries
- Approximately $22 million from DHS for liabilities to the Federal government

Status

Not accomplished. Corrective action and monitoring is in process. Due to inadequate staffing, implementation of the corrective action has not been possible. State DAGS has approval to fill the branch chief and accountant positions within the Uniform Accounting and Reporting Branch. These positions are necessary to implement the corrective action plan.

2009-3 Accounting for Revenue Bonds (Significant Deficiency)

Condition

During the fiscal year ended June 30, 2009, the Department of Hawaiian Homelands (DHHL) issued approximately $42 million in revenue bonds. Bond proceeds were recorded into a FAMIS trust fund, rather than the FAMIS bond fund.

Status

Not accomplished. Corrective action and monitoring is in process. Due to inadequate staffing, implementation of the corrective action has not been possible. State DAGS has approval to fill the branch chief and accountant positions within the Uniform Accounting and Reporting Branch. These positions are necessary to implement the corrective action plan.

2009-4 Internal Control over Financial Reporting (Significant Deficiency)

Condition

The State's internal control over financial reporting could be improved. In fiscal year 2008, we identified multiple significant deficiencies that, when considered in the aggregate, indicated that there was a material weakness in the internal control over financial reporting. These deficiencies were not as numerous in 2009 as they were in 2008; therefore, we consider this finding to be a significant deficiency in the internal control over financial reporting for fiscal year 2009.

The process used by State DAGS Accounting Division to obtain the required information from the state departments and agencies to prepare the CAFR (e.g., preparing governmental fund financial statements on a modified accrual basis and the government-wide financial statements on an accrual basis) is inefficient, very time consuming, and causes delays in statewide financial reporting. In addition, there is no enforcement of the timetable that is established to ensure that all of the departments and agencies submit accurate information on a timely basis.

Numerous post-closing adjustments were required to correct accounting and reporting errors made in the current year, as well as in the prior year.

Status

Not accomplished. Corrective action and monitoring is in process. Due to inadequate staffing, implementation of the corrective action has not been possible. State DAGS has approval to fill the branch chief and accountant positions within the Uniform Accounting and Reporting Branch. These positions are necessary to implement the corrective action plan.

2009-5 Capital Assets (Significant Deficiency)

Condition

As noted in prior audits, the State does not have a single comprehensive capital assets system to identify and monitor all capital assets used in governmental activities. Instead, State DAGS utilizes various sources of capital asset financial information in preparing the CAFR.

Land, land improvements, buildings, building improvements, equipment, and accumulated depreciation for all governmental activity agencies, except for the DOE, are accounted for by utilizing the fixed asset inventory management system (FAIS), which is maintained by the inventory management branch ("Inventory Management") of the State Procurement Office within State DAGS. According to the FAIS user manual, each State agency is responsible for ensuring that newly acquired property is recorded in FAIS in the quarter of the fiscal year the agency receives the property or when the agency assumes responsibility for maintaining the property.

Infrastructure and related accumulated depreciation are maintained on electronic spreadsheets by the DHHL and the Department of Transportation — Highways Division ("Highways") and are provided to State DAGS annually for inclusion in the CAFR. Capital asset information for the DOE is maintained by that department and is provided to State DAGS annually for inclusion in the CAFR.

The State's construction in progress, except for the DOE, is maintained by State DAGS — Public Works (the "Public Works Division"). Financial information from the Public Works Division is provided to DAGS annually for inclusion in the CAFR.

During our testing, we noted the following:

- Capital asset additions were not entered into FAIS on a timely basis. We noted an instance whereby a $1.7 million capital asset was placed in service in November 2007, but was not entered into FAIS until fiscal year 2009.

- Because there are sometimes delays between when the State agencies incur capital asset expenditures (recorded in FAMIS) and recorded them in FAIS, State DAGS has had difficulty in reconciling the amounts expended for capital assets in FAMIS to the amounts reported as additions in FAIS.

Status

Not accomplished. Corrective action and monitoring is in process. Due to inadequate staffing, implementation of the corrective action has not been possible. State DAGS has approval to fill the branch chief and accountant positions within the Uniform Accounting and Reporting Branch. These positions are necessary to implement the corrective action plan.

2009-6 Cash (Significant Deficiency)

Condition

The cash reconciliation process is time consuming and incomplete. Currently, bank statements are reconciled to the State B&F cash subledger. This cash subledger, in turn, is reconciled with the State's general ledger, FAMIS, which is maintained by State DAGS. While this reconciliation process identifies differences between the bank statements and the cash subledger, and between the cash subledger and FAMIS, no adjusting entries are recorded to account for the differences. As a result, the cash balance in FAMIS is not updated to reflect the State's true cash balances at June 30, 2009.

At June 30, 2009, an audit adjustment of approximately $12 million was recorded to correct the Unemployment Compensation Fund cash balances for cash received, but not recorded. While the difference at

June 30, 2009, was not material to the financial statements as a whole, cash is a liquid item, that is susceptible to theft and, therefore, even immaterial unidentified differences could indicate improper activity and should be investigated. Similar conditions were also present during prior fiscal years.

Status

Not accomplished. Corrective action and monitoring is in process. Due to inadequate staffing, implementation of the corrective action has not been possible. State DAGS and State B&F FAD are jointly developing a corrective action plan to resolve the deficiency. State DAGS has approval to fill the branch chief and accountant positions within the Uniform Accounting and Reporting Branch. These positions are necessary to implement the corrective action plan.

2009-7 Accounting for Component Units and Proprietary Funds (Significant Deficiency)

Condition

During fiscal year 2008, State DAGS implemented a policy on reporting “material” component units and proprietary funds, which stated that only material component units and proprietary funds would be disclosed as discretely presented component units and major proprietary funds in the CAFR. Materiality was determined based on certain quantitative criteria determined by DAGS considering the requirements in GASB Statement Nos. 14 and 39 for component units and GASB Statement No. 34 for proprietary funds.

As a result of implementing the policy, State DAGS noted that the Stadium Authority, Hawaii Strategic Development Corporation, Aloha Tower Development Corporation, High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority met the definition of discretely presented component units as defined in GASB Statement Nos. 14 and 39, but did not meet the materiality thresholds under the state’s policy, and thus were not disclosed as discretely presented component units in the June 30, 2009, CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

State DAGS also noted that the State DLIR — Disability Compensation Fund and the Public Safety Department — Correctional Industry Fund met the definition of proprietary funds as defined in GASB Statement No. 34, but did not meet the materiality threshold under the State’s policy, and thus were not disclosed as proprietary funds in the June 30, 2009 CAFR. Instead, they were reported as part of the governmental funds to which these entities were administratively attached.

Status

Not accomplished. Corrective action and monitoring is in process. Due to inadequate staffing, implementation of the corrective action has not been possible. State DAGS has approval to fill the branch chief and accountant positions within the Uniform Accounting and Reporting Branch. These positions are necessary to implement the corrective action plan.

STATE DEPARTMENT OF AGRICULTURE

Financial Statement Findings

09-01 Deficiency in Accounting for Capital Assets (Material Weakness)

Condition

During the prior year audit, the State DLIR did not properly report capital purchases and construction-in-progress in accordance with GAAP and the State's policies and procedures which resulted in an audit restatement to the State DLIR's July 1, 2007, net assets balance of approximately $1.3 million.

During the audit, the following audit adjustments were made to the State DLIR's financial statements:

- $2,429,000 adjustment for the transfer of construction-in-progress to land improvements for a project completed during fiscal year 2009 and related depreciation expense of $81,000.

- $698,000 to record internally developed computer software.

- $1,248,000 adjustment to reverse improper recordation of assets as construction-in-progress that should have been expensed.

Net capital asset expenditures of $41,985 were not properly reported in the State's FAIS for the current year.

Status

Not accomplished. Corrective action and monitoring is in process. Due to inadequate staffing, implementation of the corrective action has not been possible. An office services supervisor position within ASO has been filled as of October 2011. This position is in the process of training during the six-month probationary period and once trained will be able to implement the corrective action plan.

09-02 Deficiency in Accounting for Compensated Absences (Significant Deficiency)

Condition

During our prior year audit, we noted that the State DLIR's vacation, sick and compensatory balances were misstated, resulting in an audit adjustment of $58,000. We also noted a situation where records of Form G-1s were incomplete and misplaced for one individual.

During our current year testing of compensated absences, we noted similar errors as follows:

- Vacation, sick, and compensatory balances as of June 30, 2009, as reported in the State DLIR's vacation and sick leave balance schedule maintained by the personnel technician, did not agree to our recalculated balances using the employee's Form G-1 by approximately $13,000.

- The reported vacation hours earned for an employee was less than the amount the employee was entitled to receive per review of the DPS-7 Employee Leave Record forms. For one month, the employee received 12 vacation hours rather than 14 vacation hours earned for the month.

We also noted inconsistencies in the tracking of employee leave as some timekeepers manually input hours earned and hours used on the DPS-7 forms, while other timekeepers maintain records on Excel spreadsheets. We noted that the manually maintained records were sometimes illegible resulting in miscalculations of employees' compensated balances.

Status

Partially accomplished. Corrective action and monitoring is in progress. The personnel technician developed a PowerPoint tutorial with examples of actual leave accounting situations that timekeepers may encounter. The PowerPoint tutorial was made available to all authorized timekeepers as of September 2010. In addition, all timekeepers have been instructed to call the personnel office if they should have specific questions and it will be addressed individually to avoid errors in posting of leave balances. All timekeepers are required to maintain employee leave records on the Excel spreadsheet except for those programs whose employees work other than a Monday through Friday schedule.

The personnel section has not been fully staffed since having been impacted by the 2009 reduction-in-force (RIF). If and when the personnel section once again becomes fully staffed, random audits will be performed throughout the year to insure accuracy in leave accounting recordkeeping.

09-03 Inadequate Accounting of Lease Commitments (Significant Deficiency)

Condition

During a prior year audit, lease revenue disclosure as lease rents were not updated to reflect current rental information. For nonagriculture leases managed by the State DLNR, the State DLIR does not maintain a master schedule that reflects both the most current rental information and leases that were transferred to the State DLIR.

We noted similar issues during the current year audit as follows:

- Future lease revenue disclosure was not updated to reflect current rental information.
- Department of Hawaiian Home Land entitlements were miscalculated in the schedule.
- Future rental income was improperly calculated on a calendar year rather than fiscal year basis.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010. Note that a separate audit of the State Department of Agriculture's financial statements was not performed for the year ended June 30, 2010. Instead, the financial statements of the State Department of Agriculture were tested through the performance of the consolidated audit of the State's CAFR. Because the CAFR audit is performed at a higher level than a stand-alone audit of the State DLIR, the materiality threshold for identifying and reporting findings is higher.

08-03 Lack of Segregation of Duties — Information Technology (Significant Deficiency)

Condition

In the prior year audit, we noted the State DLIR's developer of APPX applications was the same person who was responsible for migrating changes into the production environment.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010. Note that a separate audit of the State Department of Agriculture's financial statements was not performed for the year ended June 30, 2010. Instead, the financial statements of the State Department of Agriculture were tested through the performance of the consolidated audit of the State's CAFR. Because the CAFR audit is performed at a higher level than a stand-alone audit of the State DLIR, the materiality threshold for identifying and reporting findings is higher.

08-05 Inadequate Loan Monitoring (Significant Deficiency)

Condition

In the prior year audit, the State DLIR was not consistently following internal loan servicing procedures to monitor loan receivables. The State DLIR was responsible for making a minimum of two site visits a year to monitor the borrower's operations and inspect the collateral. Of the 25 loans tested, we noted only one site visit was performed for 14 of those loans tested and no site visits were performed for five of those loans tested.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010. Note that a separate audit of the State Department of Agriculture's financial statements was not performed for the year ended June 30, 2010. Instead, the financial statements of the State Department of Agriculture were tested through the performance of the consolidated audit of the State's CAFR. Because the CAFR audit is performed at a higher level than a stand-alone audit of the State DLIR, the materiality threshold for identifying and reporting findings is higher.

Federal Award Findings and Questioned Costs

09-04 Cash Management (Material Weakness)

Condition

During our current year audit, we noted instances where the State DLIR did not comply with the cash management requirements as set forth by the OMB. While the State DLIR is required to disburse funds within a reasonable period upon receipt, the State DLIR did not completely disburse the drawdowns for over 50 days in five out of the 10 drawdowns tested.

Status

Not accomplished. Refer to finding No. 2010-13.

09-05 Equipment (Material Weakness)

Condition

During our current year audit, we noted that the State DLIR did not properly report $34,400 in equipment purchases in accordance with the State's policies and procedures as capital asset expenditures were not properly reported in the FAIS nor properly tagged with a State decal number for 13 out of the 15 items tested.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010.

09-06 Payroll Certifications (Significant Deficiency)

Condition

During our current year audit, we noted that two individuals fully dedicated towards the CAPS program failed to file the required payroll certifications. Employees compensated by a Federal program who fully dedicate their time toward the program are required to prepare certifications, certifying their time was dedicated solely to the Federal program.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010.

09-07 Matching (Significant Deficiency)

Condition

During our testing of the matching requirements set forth in the 2008 Citrus Health Cooperative Agricultural Pest Survey agreement, we noted the State DLIR violated the grant's matching requirement. The agreement required that the State DLIR cover 25% of the costs with the Federal agency contributing 75% of the costs. We noted the State DLIR only covered 14% of the program costs and should have contributed an additional $5,785 to meet the grant's matching requirement. Therefore, the State DLIR received $5,785 more in Federal funds than it should have.

Status

Not accomplished. Refer to finding No. 2010-15.

08-08 Noncompliance with the Davis-Bacon Act (Significant Deficiency)

Condition

In the prior year audit, it was noted that the State DLIR did not comply with the Davis-Bacon Act and did not perform an adequate review of certified payroll reports. We noted that an employee not assigned to the project was improperly included on the certified reports, resulting in questioned costs of $430. Additionally, the prevailing wage rate clause was not included as part of the contract or purchase order for two of the three contracts tested.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010.

STATE DEPARTMENT OF DEFENSE

Financial Statement Findings

The State DOD has not submitted a completed audit and data collection form for the fiscal years ended June 30, 2008 and 2009. The findings below are a result of the audit for the fiscal year ended June 30, 2007.

07-01 Financial Statements Preparation (Significant Deficiency)

Condition

The State DLIR's accounting staff may not have the specific training, competencies or experience to prepare the State DLIR's financial statements and related footnote disclosures in accordance with generally accepted accounting principles, as promulgated by the GASB. Accordingly, the State DLIR may not have adequate internal controls in place to detect and prevent misstatements in its financial statements.

Status

Not accomplished. Refer to finding No. 2010-9.

Federal Award Findings and Questioned Costs

07-02 Reporting (Significant Deficiency)

Condition

In the schedule of Federal awards submitted by the State DLIR, there were discrepancies between expenditures reported for several Federal programs, and the related amounts in the State DLIR's accounting records.

Status

Not accomplished. Refer to finding No. 2010-9.

07-03 Single Audit Reporting (Significant Deficiency)

Condition

The State DLIR's single audit was not completed within nine months of the end of the fiscal year as specified by OMB Circular A-133.

Status

Not accomplished. Refer to finding No. 2010-10.

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07-04 Homeland Security Grant Program; CFDA No. 97.004 (Significant Deficiency)

Condition

In the audit of a subrecipient for the year ended June 30, 2007, it was reported that quarterly financial reports for each quarter of the fiscal year had not been submitted to the State DLIR. The State DLIR has not received those quarterly reports to date.

Status

The audit finding does not warrant further action, since all of the following have occurred:

- Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

- The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding.

- A management decision was not issued.

STATE DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

Financial Statement Findings

08-01 Financial Reporting (Material Weakness)

Condition

During our audit, we identified and recorded numerous adjusting and reclassification journal entries to the State DLIR's governmental, proprietary, and fiduciary fund financial statements, as well as the department-wide financial statements. Further, we identified material Federal expenditures that were incorrectly excluded from the SEFAs. These conditions arose due to the absence of an appropriate process in place for the preparation of the financial statements and the SEFAs, specifically controls over the recording and reporting of financial transactions and over the completeness and accuracy of the State DLIR's Federal expenditures, respectively.

Status

Not accomplished. Refer to finding No. 2010-01, 2010-03, and 2010-09.

Federal Awards Findings and Questioned Costs

08-02 Reporting-Late Submission of Reports (Deficiency)

Condition

During our test work over the reporting requirements, we noted that the State DLIR did not submit its UI-3 report for the quarter ended June 30, 2008 and its final ETA 9130 report for the 2004 grant award (UI-13543-04-55) within the prescribed deadlines. The UI-3 report, which was due by July 30, 2008, was submitted on August 4, 2008, while the ETA 9130 report, which was due by December 29, 2007, was submitted on March 25, 2008. This condition arose due to the lack of adequate staffing at the time of the submission, as well as a change in the submission procedures from the prior year.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010.

08-03 Reporting-Errors in Reporting (Deficiency)

Condition

During our testwork over the reporting requirements, we noted that the Reed Act withdrawals were incorrectly excluded from the ETA 2112 reports for all of the monthly reports submitted during the year ended June 30, 2008. This condition arose as the State DLIR's understanding was that the information on the

ETA 2112 report was limited to what was recorded on the State's records; however, the Reed Act withdrawals were also required to be included, even though they are not initially reflected on the State's records.

Status

Not Accomplished. Refer to finding No. 2010-22.

STATE DEPARTMENT OF LAND AND NATURAL RESOURCES

Financial Statement Findings

09-01 Expenditures Claimed for Reimbursement Were Overstated (Material Weakness)

Condition

Internal controls over financial reporting provided for inaccurate disclosure of financial results of financially assisted activities as it allowed for excess costs to be claimed for reimbursement by DBOR for the period October 2008 through March 2009.

Status

Partially accomplished. Corrective action and monitoring is in progress. EMIS has been implemented in two phases: the first phase went live on August 1, 2010, and the second phase (enforcement activities/reports) is currently being beta tested and is expected to be fully implemented by July 1, 2012.

Federal Award Findings and Questioned Costs

09-02 Expenditures Claimed for Reimbursement Were Overstated (Material Weakness)

Refer to Finding 09-01 above..

STATE DEPARTMENT OF PUBLIC SAFETY

Financial Statement Findings

09-01 Improve Controls over Inmate Agency Accounts (Material Weakness)

Condition

We noted the following conditions regarding the inmate trust accounts for the fiscal year ended June 30, 2009:

- We were unable to reconcile the inmate trust account balance, which provides detail on the balance of each inmate, per the inmate trust accounting (ITA) system's printed trial balance report to the reconciled cash balance as of June 30, 2009.

- The Women's Community Correctional Center (WCCC) did not prepare bank reconciliations during the current fiscal year. The WCCC has not performed monthly bank reconciliations since May 31, 1996.

- Inactive inmate accounts remained on the PSD's financial records.

As noted in prior years, the controls over the inmate agency fund accounts need improvement. We realize that the PSD is aware of the needed improvements and efforts have been made to rectify the problems. The prior year's corrective action plan by the PSD was to explore the possibility of contracting with a vendor who could assist the facilities with the reconciliation process and complete a review of each inactive inmate account to the point where the PSD could properly escheat these funds to the State. From our discussion with management, management concluded that hiring a consultant is not feasible based on the current situation due to a lack of funding.

This finding has been occurring for many years despite the efforts of the PSD to make certain changes such as the installation of software to maintain the trust accounts, regular monitoring of the progress of the finding and even the establishment of a working group to address the many problems each facility encounters with reconciling the inmate trust accounts.

Status

Partially accomplished. Corrective action and monitoring is in process. The economic condition of the State has not improved. Budget restrictions continue to prevent staff recruitment to address this problem. As a result, PSD has not implemented standardizing the bank reconciliation process. The anticipated date of completion is December 2015.

09-02 Strengthen Controls over Compensated Leaves of Absence (Deficiency)

Condition

The following conditions were noted during our review of leave records for the fiscal year ended June 30, 2009:

- In 10 instances, the excel spreadsheet which supports the accrued vacation balance on the financial statements did not contain the correct pay rates.

- In eight instances, the excel spreadsheet which supports the accrued vacation balance of the financial statements and represent data from the DPS-7 reports contained key-punching errors.

- In 11 instances, the DPS-7 report, which is used to track an individual employee's accrued vacation, contained mathematical errors.

- The PSD has implemented a control to prevent the overpayment of salaries. The control is that the time and attendance clerk will utilize the sign-in and sign-out sheets as a record of the overtime worked by each employee rather than wait for the employee to turn in their respective timesheets. We noted that during 2009, Halawa Correctional Facility (HCF) and WCCC have not implemented this control due to staff shortages.

The PSD acknowledges a need to strengthen the controls over the compensated leave of absence process. The corrective action plan for the prior year's findings was to conduct periodic audits of leave records maintained by program units in order to promote accurate and timely recordation of leaves and to conduct scheduled training sessions on the leave records maintenance procedures for all programs. As of June 30, 2009, the audit of four programs had been completed. There has been no training provided on the maintenance procedures to properly complete the leave records.

Status

Partially accomplished. Corrective action and monitoring is in process. The personnel office continues to be under staffed, which prevents timely personnel audits from being completed. Efforts at six of seven facilities have kept timesheets current. Only the HCF was unable to implement the time and attendance system due to insufficient timekeeping staff. Training of the time and attendance system continues on an “as needed” basis. The anticipated date of completion is December 2013.

09-03 Properly Account for Capital Assets (Deficiency)

Condition

During our review of the capital asset records of the PSD, we noted the following:

- Capital asset transactions were not reported to the State in a timely manner.

- Although reflected on the department’s financial statements, since 1985, building and building improvement costs amounting to approximately $24.7 million, net of depreciation, were not recorded on the State’s Annual Inventory Report of Property as of June 39, 2009. Most of the costs were for the construction of capital assets for which the PSD was not the expending agency.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010.

Federal Award Findings and Questioned Costs

09-04 Tracking Equipment Purchases (Material Weakness)

Condition

To streamline the purchasing process, Civil Defense implemented a central electronic purchasing system called Fisher Safety (“Fisher”). Although Fisher is no longer used for new contracts, in the current year, there were transactions through Fisher for contracts initiated in prior years. By utilizing Fisher, the PSD no longer has to physically issue a check for purchases; instead, the funds are paid directly by Civil Defense after being provided evidence of delivery from the Sheriff’s Division. During our audit, we noted that the purchases of approximately $383,000 were not recorded, and the related equipment received was not tagged or entered into the inventory system for tracking as required by state and Federal guidelines.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010.

09-05 Monitor Expenditures of Subrecipient of Federal Grant Monies (Significant Deficiency)

Condition

On a quarterly basis, subrecipients are required to submit documentation of expenditures for reimbursement to the PSD. Additionally, the PSD performs a yearly site-visit audit.

During our audit we noted that the PSD discovered potentially questionable costs during the yearly site-visit audit. Although the costs were ultimately determined to be allowable, we noted that the PSD should have detected the potentially unallowable costs earlier.

Status

Accomplished. There were no similar findings noted for the year ended June 30, 2010.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS IN RESPONSE TO AUDIT FINDING

NEIL ABERCROMBIE
GOVERNOR

DEAN H. SEKI
ACTING COMPTROLLER

JAN S. GOUVEIA
DEPUTY COMPTROLLER

STATE OF HAWAI'I
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
P.O. BOX 119, HONOLULU, HAWAI'I 96810-0119

AUD 12.0025

Ms. Valerie N. Shintaku
Director
Deloitte & Touche LLP
1132 Bishop Street
Ste. 1200
Honolulu, HI 96813-2870

Dear Ms. Shintaku:

Thank you for the opportunity to provide comments on the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with *Government Auditing Standards* and on the Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 issued in connection with the financial audit of the State's financial statements included in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. We have also attached our comments on the status of prior audit findings.

We commend Deloitte & Touche LLP's staff for the cooperative and professional manner in which they conducted themselves during this audit.

If you have any questions, please call me at 586-0400, or Wayne L. Chu, Audit Division at 586-0360.

Sincerely,

DEAN H. SEKI
Acting Comptroller

SECTION II – FINANCIAL STATEMENT FINDINGS

2010-01 - Schedule of Expenditures and Federal Awards (SEFA) (Material Weakness) (Page 151)

Corrective Action Plan

A well-defined process for federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA will be developed.

Training and instructions will be developed to assist department fiscal management in the preparation of the departments' SEFA information for inclusion in the State's SEFA.

An independent review of departmental SEFA will be performed by appropriately trained personnel to ensure completeness, consistency, and compliance with reporting requirements, and State accounting and disclosure policies.

Person Responsible	Wayne Horie, Administrator
Anticipated Completion Date	August 31, 2012

2010-02 - Accounting and Reporting of Cash and Cash Equivalents (Significant Deficiency) (Page 153)

Corrective Action Plan

Differences between the bank statements and the Department of Budget and Finance's (DBF) cash subledgers and between DBF's cash subledgers and FAMIS will be identified timely, reviewed, and recorded in FAMIS monthly. DBF will reconcile the bank accounts timely and provide DAGS with a copy of the monthly bank reconciliations. DAGS will prepare the reconciliation between DBF's cash subledgers and FAMIS timely. DAGS will review both reconciliations and record adjustments to FAMIS monthly.

Person Responsible	Wayne Horie, Administrator
Anticipated Completion Date	December 31, 2012

2010-03 - Internal Control over Financial Reporting (Significant Deficiency) (Page 154)

Corrective Action Plan

DAGS needs a new accounting system with financial reporting capabilities to prepare financial statements on a budgetary and cash basis, modified accrual basis, and full accrual basis of accounting to meet the State's needs and GASB standards in preparing the State's CAFR. Such an accounting system requires funds. Until funds are available, DAGS will continue to use its current accounting system (FAMIS) and its manual accrual information gathering process to prepare the State's financial statements. DAGS will continue to modify its process to become well-defined, systematic, efficient, and orderly process for financial reporting that shall include: 1) a comprehensive set of policies and procedures necessary to establish internal control over financial reporting; 2) overall timing; 3) methodology; 4) format; 5) frequency; and 6) analysis. The process will be documented, approved by DAGS Accounting Division, and communicated to other departments and agencies.

Person Responsible Wayne Horie, Administrator

Anticipated Completion Date December 31, 2012

2010-04 - Accounting for Postemployment Benefits (Significant Deficiency) (Page 156)

Corrective Action Plan

DAGS shall remind the State DB&F of the required CAFR deadline for the actuary report or information. The State DB&F shall coordinate with the Hawaii Employer-Union Health Benefits Trust Fund as to sufficient planning to ensure that assumptions are provided to the contracted actuary timely in order to meet the contract delivery deadline.

Person Responsible Wayne Horie, Administrator

Anticipated Completion Date December 31, 2012

2010-05 - Accounting for Component Units and Proprietary Funds (Significant Deficiency) (Page 157)

Corrective Action Plan

DAGS will review the State's policy regarding the reporting of discretely presented component units (CU) and major proprietary funds (PF) as compared with GASB Statement Nos. 14, 34, and 39 when preparing the CAFR. Currently, seven State agencies meet the GASB requirement for inclusion in the CAFR as CUs and PFs, but do not meet the State's policy. The review will take into consideration the resources needed to comply with GASB Statement Nos. 14, 34, and 39.

Person Responsible Wayne Horie, Administrator

Anticipated Completion Date	August 31, 2012

2010-06 - Accounting for Capital Assets (Significant Deficiency) (Page 158)

Corrective Action Plan

DAGS needs a new accounting system which captures and maintains capital assets and depreciation expense. Such an accounting system requires funds. Until such funds are available, DAGS will continue to use its current Fixed Asset Inventory System (FAIS) and other departments' capital asset accounting records. DAGS will continue to modify its process into a formal, methodical, and systematic process of policies and business processes to ensure that information is processed by the State's various departments' capital asset ledgers and systems in an accurate and timely manner. The process will include periodic consolidation and review procedures, which will require capital asset information to be provided, consolidated, and reviewed for errors by qualified employees on a periodic basis. The development and implementation of the corrective action plan will depend on available resources.

Person Responsible	Wayne Horie, Administrator
Anticipated Completion Date	December 31, 2012

2010-07 - User Access Monitoring and Review (Significant Deficiency) (Page 159)

Corrective Action Plan

The Information and Communication Services Division (ICSD) will communicate to departments the requirements to access ICSD systems, which include completion of a standard user access form to request user access or modify access to the system. Also, ICSD is developing a process to facilitate timely (within five days) notification of terminated users to ICSD.

Person Responsible	Wayne Sasaki, System Services Branch Manager
Anticipated Completion Date	December 31, 2012

2010-08 - Great Plains Change Control (Significant Deficiency) (Page 160)

Corrective Action Plan

The Department of Budget and Finance, Financial Administrative Division (FAD), will establish and develop procedures to document changes to the Great Plains application. In developing the change control process, FAD will consider document testing and authorization for implementation to all production environments prior to implementation. In addition, FAD will consider segregating the ability to make changes to production systems from the responsibility of programming and authorizing changes to production.

Person Responsible Judy Dang, Funds Manager

Anticipated Completion Date December 31, 2012

2010-09 - Schedule of Expenditures of Federal Awards (Page 161)
(Material Weakness)
State Department of Accounting and General Services

CFDA Nos. 17.225, 12.400, 39.011.

Corrective Action Plan

A well-defined process for federal financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over preparing the SEFA will be developed.

Training and instructions will be developed to assist department fiscal management in the preparation of the departments' SEFA information for inclusion in the State's SEFA.

An independent review of departmental SEFA will be performed by appropriately trained personnel to ensure completeness, consistency, and compliance with reporting requirements, and State accounting and disclosure policies.

Person Responsible Wayne Horie, Administrator

Anticipated Completion Date August 31, 2012

2010-10 - Untimely Submission of June 30, 2008 and 2009 SEFAs (Page 162)
(Material Weakness)
State Department of Defense

Corrective Action Plan

The 2008 and 2009 State Department of Defense (DOD) Single Audit reports are currently being conducted. The State DOD is actively assisting with completing the outstanding single audit reports. DAGS will continue to provide support and encouragement to the State DOD to complete these outstanding single audit reports as soon as possible.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-11 - Untimely Submission of June 30, 2009 SEFA (Page 162)
(Material Weakness)
State Department of Labor and Industrial Relations

Corrective Action Plan

The State Department of Labor and Industrial Relations' (DLIR) 2009 Single Audit report has not been issued as of the date of this report. DLIR is cooperating with the external auditor to complete the single audit report. Policies and procedures with supervisory review have been implemented to ensure reporting deadlines are met.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	December 31, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-12 – Procurement Parceling (Material Weakness) (Page 164)
State Department of Defense

CFDA Nos. 12.401, 93.558, 16.540, 12.Unknown, 64.203

Corrective Action Plan

The DOD plans to improve its internal controls over compliance with procurement regulations by having its fiscal and federal program staffs attend procurement training and to ensure that only individuals that have been trained and are delegated the authority to procure goods and services conduct procurement on behalf of federal grant programs. Supervisory federal grant program and ASO reviews will be strengthened.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-13- Cash Management (Significant Deficiency) (Page 165)
State Department of Agriculture

CFDA No. 10.025

Corrective Action Plan

The DOA will review and evaluate its communications process over federal grant compliance. Corrective policies and procedures will be developed and implemented regarding cash management to minimize the time lag between federal fund drawdown and disbursement in accordance with 31 CFR Section 205.33. Supervisory program and ASO reviews will be strengthened.

Person Responsible	Keith Aragaki, Administrative Services Officer
Anticipated Completion Date	December 31, 2012

2010-14 - Federal Reporting Accuracy (Significant Deficiency) (Page 166)
State Department of Agriculture

CFDA No. 10.025

Corrective Action Plan

DOA will develop and implement policies and procedures to ensure that federal reports prepared during the fiscal year agree or reconcile with the supporting documentation. Supervisory program and ASO reviews will be strengthened.

Person Responsible	Keith Aragaki, Administrative Services
Anticipated Completion Date	December 31, 2012

2010-15 - Matching (Material Weakness) (Page 167)
State Department of Agriculture

CFDA No. 10.025

Corrective Action Plan

DOA will improve its supervisory review over federal grant requirements by using a template of all grants to identify grant requirements at the beginning of the grant period, including Federal matching. Program staff will be reminded as federal expenditures are made of the federal matching requirements to ensure that the program is compliant with all grant requirements. Supervisory program and ASO reviews will be strengthened.

Person Responsible	Keith Aragaki, Administrative Services Officer
Anticipated Completion Date	December 31, 2012

2010-16 - Transfer of Equipment (Significant Deficiency) (Page 168)
State Department of Defense

CFDA No. 12.401

Corrective Action Plan

The State Department of Defense (DOD) has implemented policies and procedures to ensure compliance with the federal requirement to obtain the necessary approval from the USPFO with regard to transfer of equipment between State DOD's divisions.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-17 - Property Records (Significant Deficiency) (Page 169)
State Department of Defense

CFDA No. 12.401

Corrective Action Plan

The State DOD has implemented policies and procedures to ensure compliance with the federal requirement to provide the USPFO with a listing of property records.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-18 - ARRA Reported Information (Significant Deficiency) (Page 170)
State Department of Defense

CFDA No. ARRA - 12.401

Corrective Action Plan

The State DOD has implemented training for staff responsible for preparing and submitting Section 1512 reports to the National Guard Bureau. A consultant has been hired to assist the State DOD staff with the preparation and submission of the reports.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-19 – Payroll Certifications (Significant Deficiency) (Page 171)
State Department of Defense

CFDA No. ARRA - 12.401

Corrective Action Plan

The State DOD now requires that for all employees who solely work on a single Federal award a payroll certification will be prepared on a semi-annual basis. The State DOD ASO will remind all Federal program and ASO staffs of this requirement.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-20 – Reporting (Significant Deficiency) (Page 172)
State Department of Defense

CFDA No. ARRA - 12.401

Corrective Action Plan

The State DOD will develop and implement policies and procedures to ensure that all ARRA requirements are formally communicated to the DOD's contractors and vendors. The procedures will include the type of and manner of information required of the contractor or vendor to assist the State DOD in fulfilling its ARRA reporting requirements. Also, the procedures will include a periodic follow-up by the State DOD during the fiscal year to ensure that the information gathered by the contractor and vendor meets the ARRA requirements.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-21 – Davis Bacon Act (Significant Deficiency) (Page 173)
State Department of Defense

CFDA No. 12.401

Corrective Action Plan

The State DOD will develop and implement policies and procedures to ensure that the project managers are monitoring contractors for compliance with the Davis-Bacon Act. These policies and procedures will be communicated to all project managers.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-22 - Reporting – Financial Reporting Accuracy (Significant Deficiency) (Page 174)
State Department of Labor and Industrial Relations

CFDA Nos. 17.207, 17.801, 17.804

Corrective Action Plan

The Federal program and fiscal supervisory reviews will be strengthened. Review controls will be implemented to ensure accuracy and completeness of data and information included in the reports submitted to Federal awarding agencies

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	September 30, 2012

2010-23 – Eligibility for Emergency Unemployment Compensation (Significant Deficiency) (Page 175)
State Department of Labor and Industrial Relations

CFDA No. 17.225

Corrective Action Plan

The State Department of Labor and Industrial Relations (DLIR) Emergency Unemployment Compensation (EUC) shall provide training to its program personnel responsible for determining eligibility to participate in the federal program. Supervisory program review shall be strengthened to ensure that only eligible applicants may participate in the federal program and that program personnel are determining eligibility correctly.

Person Responsible	Hunter Monson, Benefit Processing and Control Chief
Anticipated Completion Date	September 30, 2012

2010-24 – Travel Policy (Significant Deficiency) (Page 176)
State Department of Labor and Industrial Relations

CFDA No. 17.225

Corrective Action Plan

The State DLIR Administrative Services Office (ASO) shall remind all State programs that State travel procedures as outlined in the SPO Travel Procedures shall be followed and completed before request for reimbursement can be processed for federal grant programs. In processing travel request for payment, the State DLIR ASO shall monitor State programs compliance with the State's travel reimbursement policy.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2010-25 – Unwithheld Taxes of Federal Additional Compensation (Significant Deficiency) (Page 177)
State Department of Labor and Industrial Relations

CFDA No. 17.225

Corrective Action Plan

The State DLIR ASO will review the department's benefit payment system to determine if Federal income tax can be withheld from the Federal Additional Compensation payments. If the review determines that Federal income tax can be withheld, ASO will consider whether funds are available to implement the change.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2010-26 – Untimely Submission of Reports (Significant Deficiency) (Page 178)
State Department of Labor and Industrial Relations

CFDA Nos. 17.225, 17.258, 17.207, 93.569

Corrective Action Plan

The State DLIR ASO will remind Federal grant program and ASO staffs of the Federal reporting compliance requirement that all required financial reports are prepared, reviewed, and submitted prior to the reporting deadlines. Policies and procedures to improve internal controls over financial reporting will be considered for development and implementation as future funding and resources are made available.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2010-27 – Equipment Management: Lack of Physical Inventory (Significant Deficiency) (Page 179)
State Department of Labor and Industrial Relations

CFDA Nos. 17.258 - 17.260

Corrective Action Plan

The State DLIR ASO will remind Federal grant program and ASO staffs of the State's Fixed Asset Inventory System's (FAIS) requirement of recording fixed asset additions and deletions quarterly on the FAIS input forms and to conduct an annual physical inventory based on its

FAIS listing of capital assets. Compliance with this State accounting requirement will satisfy the Federal compliance requirement regarding equipment management.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2010-28 – Untimely Submission of Reports (Significant Deficiency) (Page 180)
State Department of Business, Economic Development and Tourism

CFDA No. 81.041

Corrective Action Plan

The State Department of Business, Economic Development and Tourism (DBEDT) ASO will remind Federal grant program and ASO staffs of the Federal reporting compliance requirement that all required financial reports are prepared, reviewed, and submitted prior to the reporting deadlines. Policies and procedures to improve internal controls over financial reporting will be considered for development and implementation as future funding and resources are made available.

Person Responsible	Ken Kitamura, Administrative Services Officer
Anticipated Completion Date	December 31, 2012

2010-29 - Federal Reporting Inaccuracy (Significant Deficiency) (Page 181)
State Department of Labor and Industrial Relations

CFDA No. 81.042

Corrective Action Plan

Policies and procedures with supervisory review have been implemented to ensure accounting records are reconciled and accurate reports are submitted.

Person Responsible	Mila S. Kaahanui, Executive Director
Anticipated Completion Date	December 31, 2012

2010-30 - Communicating CFDA Numbers to Subrecipients (Page 182)
(Significant Deficiency)
Office of the Governor

CFDA No. ARRA 84.394 and ARRA 84.397

Corrective Action Plan

To improve its communication with future subrecipients, the Office of the Governor established policies and procedures to ensure that all required federal award information and compliance requirements are included or referred to in any future agreements with subrecipients.

Person Responsible	Tammi Chun, Policy Analyst, Office of the Governor
Anticipated Completion Date	December 31, 2012

2010-31 - Subrecipient Monitoring (Significant Deficiency) (Page 183)
Office of the Governor

CFDA Nos. ARRA 84.394 and ARRA 84.397

Corrective Action Plan

The Office of the Governor will develop and implement a subrecipient monitoring checklist to ensure subrecipeint monitoring procedures are being conducted. Fiscal year end procedures will include a reminder letter to each subrecipient of their obligation to complete an audit if required by OMB Circular A-133.

Person Responsible	Tammi Chun, Policy Analyst, Office of the Governor
Anticipated Completion Date	December 31, 2012

2010-32 - Central Contractor Registration (Significant Deficiency) (Page 184)
Office of the Governor

CFDA Nos. ARRA 84.394 and ARRA 84.397

Corrective Action Plan

The Office of the Governor will establish policies and procedures to ensure that subrecipients are registered with CCR at all times during which they have active federal awards funded with ARRA funds. Current agreements with subrecipients will be updated to ensure compliance information and requirements are properly communicated to subrecipients. This federal requirement will be part of the subrecipient monitoring checklist used by the Office of the Governor to periodically monitor subrecipients.

Person Responsible	Tammi Chun, Policy Analyst, Office of the Governor

Anticipated Completion Date December 31, 2012

2010-33 - Equipment Records (Significant Deficiency) (Page 186)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The State DOD ASO will remind all Federal program and ASO staffs that all equipment purchased by contract vendors that are the property of the State upon completion of the contract shall be accounted for and recorded upon delivery into the State Fixed Asset Inventory System.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-34 – Unallowable Payroll Costs (Significant Deficiency) (Page 187)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The State DOD ASO shall remind the Federal grant program and ASO staffs of the policies and procedures regarding payroll cost allocation and recording to the correct Federal program. Supervisory reviews will be strengthened to ensure the accuracy of payroll cost allocated to Federal programs.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-35 - Cash Management (Significant Deficiency) (Page 188)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The State DOD ASO will develop policies and procedures to ensure that Federal funds drawdown request are for reimbursed expenditures or expenditures paid within an "administratively feasible" timeframe. The State DOD ASO has approval to fill two accounting positions to ensure that this control operates as designed.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-36 – Untimely Submission of Reports (Significant Deficiency) (Page 189)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The State DOD ASO will remind Federal grant program and ASO staffs of the Federal reporting compliance requirement that all required financial reports are prepared, reviewed, and submitted prior to the reporting deadlines. Policies and procedures to improve internal controls over financial reporting will be considered for development and implementation as future funding and resources are made available.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-37 – Reconciliation of Reimbursements (Significant Deficiency) (Page 190)
State Department of Defense

CFDA No. 93.558

Corrective Action Plan

The State DOD ASO will strengthen current policies and procedures regarding a reconciliation of the request for reimbursement of Federal funds and the receipt of the request for reimbursement of Federal funds. This will ensure that the State DOD is properly reimbursed for eligible Federal grant expenditures paid by the State DOD on behalf of the Federal grant.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-38 - Subrecipient Monitoring: No On-Site Review Performed (Page 191)
(Significant Deficiency)

State Department of Labor and Industrial Relations

CFDA Nos. 93.569, 81.042

Corrective Action Plan

The State DLIR ASO will remind the Federal grant program and ASO staffs of the grant requirement that at least one On-Site visit shall be conducted every three years. The Federal grant program staff will be reminded to develop an On-Site visit check list and a report format to document its On-Site visit.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2010-39 - Earmarking (Significant Deficiency) (Page 192)
State Department of Labor and Industrial Relations

CFDA No. 93.569

Corrective Action Plan

The State DLIR ASO will remind the Federal grant program and ASO staffs to maintain separate accounting and tracking of all administrative expenses, including any amounts being carried over to the next year. Supervisory reviews will be strengthened to ensure that the administrative expense recorded to the Federal grant does not exceed the Federal compliance requirement.

Person Responsible	Norman Ahu, Business Management Officer
Anticipated Completion Date	December 31, 2012

2010-40 - Cash Management (Significant Deficiency) (Page 193)
State Department of Land and Natural Resources

CFDA No. 94.006

Corrective Action Plan

The State Department of Land and Natural Resources (DLNR) Financial Management Office (FMO) shall remind the Federal grant program and FMO staffs that program disbursements must be made as close as it is “administratively feasible” to the State’s actual cash outlay. The State DLNR FMO shall monitor the Federal program’s request for federal cash drawdown to ensure that the cash is used for reimbursement expenditures and expenditures that is as "administratively feasible" to be paid.

Person Responsible	Juliet Kazanjian, Fiscal Management Officer
Anticipated Completion Date	December 31, 2012

2010-41 - Subrecipient Monitoring (Significant Deficiency) (Page 194)
Department of Land and Natural Resources

CFDA No. 94.006

Corrective Action Plan

The State DLNR FMO shall remind all department Federal grant program and FMO staffs that all grant information and requirements shall be communicate to its subrecipients. The agreement with subrecipients shall include all the grant information and requirements. The State DLNR FMO shall monitor all subrecipient contracts submitted for encumbrance to ensure that this information is included in the contracts.

Person Responsible	Juliet Kazanjian, Fiscal Management Officer
Anticipated Completion Date	December 31, 2012

2010-42 - Period of Availability (Significant Deficiency) (Page 195)
State Department of Defense

CFDA No. 97.036

Corrective Action Plan

The State DOD ASO shall remind the Federal grant program and ASO staffs that the program contracted services must be performed within the allowable time period. To assist with accounting for and monitoring of Federal grant expenditures and compliance requirements, the State DOD ASO has requested additional positions.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-43 - Subrecipient Monitoring of Procurement (Significant Deficiency) (Page 196)
State Department of Defense

CFDA No. 97.036

Corrective Action Plan

The State DOD ASO will remind the State Civil Defense program staff of the Federal compliance requirement of monitoring its subrecipients' procurement practices. As a control, the State DOD ASO will review the program's contracts with subrecipients submitted for encumbrance to ensure that the program has included all the grant information and requirements and the Federal compliance requirements applicable to the grant, which includes procurement.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-44 - Subrecipient Monitoring (Significant Deficiency) (Page 198)
State Department of Defense

CFDA No. 97.036

Corrective Action Plan

The State DOD ASO shall remind the State Civil Defense program staff to communicate all grant information, including CFDA No, to its subrecipients. The subrecipients shall be made aware of all the grant information and requirements. As a control, the State DOD ASO shall monitor the subrecipient communications by reviewing the subrecipient contracts submitted for encumbrance to ensure that the grant information and requirements have been communicated to the subrecipients.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-45 - Subrecipient Monitoring of Audits (Significant Deficiency) (Page 199)
State Department of Defense

CFDA No. 97.036

Corrective Action Plan

The State DOD ASO shall remind the State Civil Defense program staff to maintain a list of all subrecipients and the related amounts provided to and expended by the subrecipients each fiscal year. This list shall be used by the State Civil Defense to monitor that subrecipients obtain a compliance audit and that the compliance requirements are addressed.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-46 - Procurement (Significant Deficiency) (Page 200)
State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The State DOD ASO will remind the State DOD Homeland Security Division (HSD) that as part of its subrecipient monitoring process it should verify that the subrecipient is complying with the State procurement policies and procedures. As a control, the State DOD ASO will review the program's contracts with subrecipients submitted for encumbrance to ensure that the program has included all the grant information and requirements and the Federal compliance requirements applicable to the grant, which includes procurement.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-47 - Earmarking (Material Weakness) (Page 201)
State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The State DOD ASO will remind the DOD HSD Federal grant program and ASO staffs that HSD is required to comply with the Federal compliance requirements. The State DOD HSD shall provide training to its Federal grant program staff to ensure that all grant requirements are identified and addressed. In addition, HSD will establish policies and procedures to ensure that the earmarking Federal compliance requirement is met.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-48 - Procurement "Piggybacking" (Significant Deficiency) (Page 202)

State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The State DOD HSD shall provide training to its program staff to ensure that State procurement policies and procedures are followed. Individuals charged with purchasing goods and services for the HSD should have the delegated procurement authority and should have completed the required procurement training in the procurement method before purchasing goods and services for HSD. Supervisory reviews will be strengthened to ensure that procurement policies and procedures are adhered to.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-49 - Cash Management (Significant Deficiency) (Page 203)
State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The State DOD ASO shall remind the State DOD HSD and the ASO staffs that they need to account for the different federal grants recorded to the same State appropriation individually. Different cost center codes should be used for each federal grant. Federal expenditures by different federal grants can be readily identified within the same State appropriation. This will ensure that federal grants are separately tracked and accounted for. In addition, the State DOD ASO shall remind the State DOD HSD and the ASO Staffs that the program disbursements (drawdown) must be made as close as it is “administratively feasible” to the State’s actual cash outlay.

Person Responsible Tom Moriyasu, Fiscal Officer

Anticipated Completion Date December 31, 2012

2010-50 - Reporting (Significant Deficiency) (Page 204)
State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The State DOD ASO shall remind the State DOD HSD and the ASO staffs that they need to communicate better in preparing the SF-425 report. The current reporting procedures will be reviewed and improved or strengthened to ensure that SF-425 reports are prepared correctly. Training in the preparation of the report will be conducted and additional training will be scheduled as needed.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012

2010-51 - Reporting (Significant Deficiency) (Page 205)
State Department of Defense

CFDA No. 97.067

Corrective Action Plan

The State DOD ASO shall remind the State DOD HSD to communicate all grant information, including reporting requirements, to its subrecipients. The subrecipients shall be made aware of all the grant information and requirements. As a control, the State DOD ASO shall monitor the subrecipient communications by reviewing the subrecipient contracts submitted for encumbrance to ensure that the grant information and requirements have been communicated to the subrecipients.

Person Responsible	Tom Moriyasu, Fiscal Officer
Anticipated Completion Date	December 31, 2012