

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2007**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII**

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## INDEPENDENT AUDITORS' REPORT

The Attorney General  
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Department of the Attorney General of the State of Hawaii (AG), as of and for the year ended June 30, 2007, which collectively comprise the AG's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the AG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1 to the basic financial statements, the financial statements of the AG are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Hawaii that is attributable to the transactions of the AG. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2007, and the changes in the financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, major funds and the aggregate remaining fund information of the AG as of June 30, 2007, and the changes in financial position of those activities and funds and the respective budgetary comparisons for the general fund and the major special revenue funds 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 reports dated December 28, 2007 on our consideration of the AG'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 those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. The reports are an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the AG's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "A. K. Mijima CPA". The signature is written in a cursive, flowing style.

December 28, 2007

**STATE OF HAWAII**  
**DEPARTMENT OF THE ATTORNEY GENERAL**  
**Management's Discussion and Analysis**

**June 30, 2007**

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The Department of the Attorney General (the AG), State of Hawaii (the State), was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of the AG is to provide legal and other services to the State, including agencies, officers, and employees of the Executive, Legislative and Judicial branches of the State's government.

As management of the AG, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the AG for the year ended June 30, 2007. This discussion and analysis is designed to assist the reader in the analysis of the AG's financial activities based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

**Financial Highlights**

**Government-Wide Financial Statement Highlights**

The assets of the AG exceeded its liabilities at June 30, 2007 by \$9,406,517 (net assets). Of this amount, \$3,674,271 was invested in capital assets and \$2,086,071 was restricted for various purposes. Net assets of the AG decreased by \$5,139,003 or 35% from the prior fiscal year.

Program revenues increased by \$1,196,406 or 4% in fiscal 2007 due primarily to increases in operating grants and contributions to child support enforcement and criminal history and State identification programs. General revenues from State allotted appropriations decreased by \$4,114,626 or 11%. Total expenses increased by \$6,481,645 or 10% in fiscal 2007 due primarily to increases in general administrative and legal services, child support enforcement and criminal history and State identification expenses. As a result, the change in net assets decreased from \$4,260,862 in the prior fiscal year to (\$5,139,003) in the current fiscal year.

**Fund Financial Statement Highlights**

At June 30, 2007, the AG's governmental funds reported combined ending fund balances of \$9,850,476, a decrease of \$4,654,229 or 32% from the prior fiscal year. Of this amount, \$7,764,405 or 79% of total fund balances are available for spending at the AG's discretion (unreserved fund balance) and the remaining \$2,086,071 represents amounts reserved for specific purposes.

**Overview of the Basic Financial Statements**

This discussion and analysis are intended to serve as an introduction to the AG's basic financial statements. The AG's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial

statements. This report also contains other supplementary information in addition to the basic financial statements.

### **Government-Wide Financial Statements**

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

The statement of net assets presents information on all of the AG'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 AG is improving or deteriorating.

The statement of activities presents information showing how the AG's net assets changed during the most recent fiscal year. Functional activities are highlighted in this statement, with functional expenses shown net of related program revenue. This statement shows the extent to which the various functions depend on state appropriations for support.

### **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 AG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the AG can be divided into two categories: (1) governmental funds; and (2) agency 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 fund 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 AG'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 AG's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund 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.

The AG maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, child support enforcement and legal services, each of which is considered to be a major fund. Data from the remaining governmental funds are combined into a single aggregated presentation.

The AG adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and special revenue funds to demonstrate compliance with this budget. The budgetary comparison statement is located in the basic financial statements and additional budgetary information on differences is presented in the notes to the basic financial statements.

### **Agency Funds (Fiduciary Funds)**

Agency funds are used to account for resources held for the benefit of parties outside the AG. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the AG's own programs.

### **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.

### **Financial Analysis**

As noted earlier, net asset may serve over time as a useful indicator of the AG's financial position. The AG's restricted net assets decreased from \$6,254,619 at June 30, 2006 to \$2,086,071 at June 30, 2007. Correspondingly, the AG's unrestricted net assets decreased from \$4,339,095 at June 30, 2006 to \$3,646,175 at June 30, 2007. The fluctuations in the restricted and unrestricted net assets balances are due to the decrease in the change in net assets and the decrease in year-end encumbrances.

The AG's condensed financial information for the fiscal years 2007 and 2006 include:

<b>Statements of Net Assets</b>	<b>2007</b>	<b>2006</b>
Current and other assets	\$ 20,836,058	\$ 27,327,188
Capital assets, net of accumulated depreciation	3,674,271	3,951,806
Total assets	<u>24,510,329</u>	<u>31,278,994</u>
Current liabilities	11,569,214	13,409,930
Noncurrent liabilities	3,534,598	3,323,544
Total liabilities	<u>15,103,812</u>	<u>16,733,474</u>
Net assets:		
Invested in capital assets	3,674,271	3,951,806
Restricted for various purposes	2,086,071	6,254,619
Unrestricted	3,646,175	4,339,095
Total net assets	<u>\$ 9,406,517</u>	<u>\$ 14,545,520</u>

<b>Changes in Net Assets</b>	<b>2007</b>	<b>2006</b>
Program revenues:		
Charges for services	\$ 4,128,045	\$ 3,914,776
Operating grants and contributions	30,581,571	29,598,434
General revenues	31,761,443	35,876,069
	<u>66,471,059</u>	<u>69,389,279</u>
Expenses:		
General administrative and legal services	40,082,101	37,659,499
Child support enforcement	17,911,103	15,278,288
Drug control and crime prevention	6,101,227	6,934,361
Criminal history and State identification	7,515,631	5,256,269
	<u>71,610,062</u>	<u>65,128,417</u>
Changes in net assets	(5,139,003)	4,260,862
Net assets - beginning of year	14,545,520	10,284,658
Net assets - end of year	<u>\$ 9,406,517</u>	<u>\$ 14,545,520</u>

### **Capital Assets**

At June 30, 2007 and 2006, the AG's investment in capital assets amounted to \$3,674,271 and \$3,951,806, respectively, net of accumulated depreciation, representing a decrease of \$277,535 or 7%. Capital assets include buildings, improvements, furniture and equipment.

### **Requests for Information**

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed in writing to the Department of the Attorney General, State of Hawaii, 425 Queen Street, Honolulu, Hawaii 96813 or by email at [hawaiiag@hawaii.gov](mailto:hawaiiag@hawaii.gov). General information about the AG can be found on the State's website, <http://www.hawaii.gov/ag>.



**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement of Net Assets**

**June 30, 2007**

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	<b>Governmental Activities</b>	<b>Total</b>
<b><u>ASSETS:</u></b>		
Current assets:		
Cash	\$ 13,440,378	\$ 13,440,378
Due from grantor	6,178,639	6,178,639
Due from subgrantees	761,415	761,415
Due from other agencies	446,760	446,760
Due from other funds	8,866	8,866
Total current assets	<u>20,836,058</u>	<u>20,836,058</u>
Noncurrent assets:		
Capital assets - net of accumulated depreciation	<u>3,674,271</u>	<u>3,674,271</u>
Total noncurrent assets	<u>3,674,271</u>	<u>3,674,271</u>
Total assets	<u><u>\$ 24,510,329</u></u>	<u><u>\$ 24,510,329</u></u>

The accompanying notes are an integral part of the basic financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement of Net Assets**

**June 30, 2007**

	<b>Governmental Activities</b>	<b>Total</b>
<b>LIABILITIES:</b>		
Current liabilities:		
Due to State of Hawaii	\$ 5,614,776	\$ 5,614,776
Accrued vacation - current	1,713,166	1,713,166
Accrued wages and employee benefits payable	1,328,912	1,328,912
Vouchers and contracts payable	1,028,832	1,028,832
Due to subgrantees	346,992	346,992
Due to agency funds	175,827	175,827
Legislative relief payable	1,351,843	1,351,843
Due to other funds	8,866	8,866
Total current liabilities	11,569,214	11,569,214
Long-term liabilities:		
Accrued vacation	3,534,598	3,534,598
Total long-term liabilities	3,534,598	3,534,598
Total liabilities	15,103,812	15,103,812
<b>NET ASSETS:</b>		
Invested in capital assets	3,674,271	3,674,271
Restricted for various purposes	2,086,071	2,086,071
Unrestricted	3,646,175	3,646,175
Total net assets	9,406,517	9,406,517
Total liabilities and net assets	\$ 24,510,329	\$ 24,510,329

The accompanying notes are an integral part of the basic financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement of Activities**

**Year Ended June 30, 2007**

<b>FUNCTIONS/PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
Governmental activities:				
General administrative and legal service	\$ 40,082,101	\$ 155,104	\$ 10,197,427	\$ (29,729,570)
Child support enforcement	17,911,103	1,900,000	12,062,461	(3,948,642)
Drug control and crime prevention	6,101,227	-	4,957,014	(1,144,213)
Criminal history and State identification	7,515,631	2,072,941	3,364,669	(2,078,021)
Total governmental activities	<u>\$ 71,610,062</u>	<u>\$ 4,128,045</u>	<u>\$ 30,581,571</u>	<u>(36,900,446)</u>
General revenues - State allotted appropriations				<u>31,761,443</u>
Change in net assets				(5,139,003)
Net assets - beginning of year				<u>14,545,520</u>
Net assets - end of year				<u>\$ 9,406,517</u>

The accompanying notes are an integral part of the basic financial statements.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Balance Sheet  
Governmental Funds

June 30, 2007

	General Fund	Child Support Enforcement	Legal Services	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>					
Cash	\$ 2,111,470	\$ 1,969,108	\$ 7,052,924	\$ 2,306,875	\$ 13,440,377
Due from grantor	-	4,702,116	-	346,992	5,049,108
Due from subgrantee	761,415	-	-	-	761,415
Due from other state agencies	-	-	446,760	-	446,760
Due from other funds	-	5,813	-	3,053	8,866
Total assets	<u>\$ 2,872,885</u>	<u>\$ 6,677,037</u>	<u>\$ 7,499,684</u>	<u>\$ 2,656,920</u>	<u>\$ 19,706,526</u>

The accompanying notes are an integral part of the basic financial statements.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Balance Sheet  
Governmental Funds

June 30, 2007

	General Fund	Child Support Enforcement	Legal Services	Other Governmental Funds	Total Governmental Funds
<u>LIABILITIES AND FUND BALANCES:</u>					
Liabilities:					
Due to State of Hawaii	\$ 25,400	\$ 4,702,115	\$ 887,261	\$ -	\$ 5,614,776
Accrued wages and employee benefits payable	560,541	291,141	370,731	106,499	1,328,912
Accounts payable	382,940	274,647	38,667	332,580	1,028,834
Due to subgrantees	-	-	-	346,992	346,992
Due to agency funds	-	175,827	-	-	175,827
Legislative relief payable	1,351,843	-	-	-	1,351,843
Due to other funds	5,813	-	3,053	-	8,866
Total liabilities	2,326,537	5,443,730	1,299,712	786,071	9,856,050
Fund balances:					
Reserved for encumbrances	2,086,071	-	-	-	2,086,071
Unreserved, reported in					
General fund	(1,539,723)	-	-	-	(1,539,723)
Special funds	-	1,233,307	6,199,972	1,870,849	9,304,128
Total fund balances	546,348	1,233,307	6,199,972	1,870,849	9,850,476
Total liabilities and fund balances	\$ 2,872,885	\$ 6,677,037	\$ 7,499,684	\$ 2,656,920	\$ 19,706,526

The accompanying notes are an integral part of the basic financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Assets**

**June 30, 2007**

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Total fund balance - governmental funds	\$ 9,850,476
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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.	3,674,271
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Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(4,118,230)
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Net assets of governmental activities	<u>\$ 9,406,517</u>
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The accompanying notes are an integral part of the basic financial statements.

DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2007

	General Fund	Child Support Enforcement	Legal Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
State allotted appropriations	\$ 31,761,443	\$ -	\$ -	\$ -	\$ 31,761,443
Fees and others	-	2,216,343	1,566,503	2,208,577	5,991,423
Intergovernmental	-	-	1,279,399	7,986,231	9,265,630
Special fund revenues	-	6,848,834	6,139,282	9,336	12,997,452
Share of TANF collections	-	4,897,284	-	-	4,897,284
Litigation settlements	-	-	350,000	-	350,000
Total revenues	<u>31,761,443</u>	<u>13,962,461</u>	<u>9,335,184</u>	<u>10,204,144</u>	<u>65,263,232</u>
<b>Expenditures:</b>					
General administrative and legal service	28,903,851	-	10,825,060	-	39,728,911
Child support enforcement	3,175,058	14,693,360	-	-	17,868,418
Drug control and crime prevention	1,076,217	-	-	4,913,118	5,989,335
Criminal history and State identification	2,173,898	-	-	5,250,840	7,424,738
Total expenditures	<u>35,329,024</u>	<u>14,693,360</u>	<u>10,825,060</u>	<u>10,163,958</u>	<u>71,011,402</u>
Excess of revenues over (under) expenditures	<u>(3,567,581)</u>	<u>(730,899)</u>	<u>(1,489,876)</u>	<u>40,186</u>	<u>(5,748,170)</u>
Other financing sources (uses)	808,889	-	94,572	190,480	1,093,941
Net change in fund balances	<u>(2,758,692)</u>	<u>(730,899)</u>	<u>(1,395,304)</u>	<u>230,666</u>	<u>(4,654,229)</u>
Fund balances - beginning	3,305,040	1,964,206	7,595,276	1,640,183	14,504,705
Fund balances - ending	<u>\$ 546,348</u>	<u>\$ 1,233,307</u>	<u>\$ 6,199,972</u>	<u>\$ 1,870,849</u>	<u>\$ 9,850,476</u>

The accompanying notes are an integral part of the basic financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures, and Changes in Fund Balances to the Statement of  
Activities**

**Year Ended June 30, 2007**

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Net change in fund balances - total governmental funds \$ (4,654,229)

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 were:

Capital outlays/other	\$	113,886	
Depreciation expense		(391,418)	
Excess of depreciation expense over capital outlays/other			(277,532)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds.

(207,242)

Change in net assets of governmental activities

\$ (5,139,003)

The accompanying notes are an integral part of the basic financial statements.



**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Budgetary Comparison Statement**

**Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
<b>General Fund</b>				
Budgetary fund balance at July 1, 2006	\$ -	\$ -	\$ 665,593	\$ 665,593
Resources (inflows):				
State allotted appropriations	31,209,393	31,863,247	31,863,247	-
Charges to appropriations (outflows):				
General administrative and legal services	25,386,204	26,036,138	26,036,138	-
Child support enforcement	2,983,419	2,924,878	2,924,878	-
Criminal history and State identification	1,763,553	1,826,014	1,826,014	-
Drug control and crime prevention	1,076,217	1,076,217	1,076,217	-
Total charges to appropriations	31,209,393	31,863,247	31,863,247	-
Budgetary fund balance at June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 665,593</u>	<u>\$ 665,593</u>
<b>Child Support Enforcement</b>				
Budgetary fund balance at July 1, 2006	\$ -	\$ -	\$ (5,416,666)	\$ (5,416,666)
Resources (inflows):				
Special fund revenues	16,847,333	13,305,913	11,785,541	(1,520,372)
Others	2,869,247	1,934,494	1,900,000	(34,494)
Amounts available for appropriation	19,716,580	15,240,407	8,268,875	(6,971,532)
Charges to appropriations (outflows):				
Child support enforcement	19,716,580	15,240,407	15,240,407	-
Budgetary fund balance at June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,971,532)</u>	<u>\$ (6,971,532)</u>
<b>Legal Services</b>				
Budgetary fund balance at July 1, 2006	\$ -	\$ -	\$ (932,228)	\$ (932,228)
Resources (inflows):				
Special fund revenues	12,289,201	6,252,070	6,389,016	136,946
Intergovernmental	2,133,762	1,263,774	1,293,115	29,341
Other	2,299,370	1,760,947	1,195,784	(565,163)
Amounts available for appropriation	16,722,333	9,276,791	7,945,687	(1,331,104)
Charges to appropriations (outflows):				
General administrative and legal services	16,722,333	9,276,791	9,276,791	-
Budgetary fund balance at June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,331,104)</u>	<u>\$ (1,331,104)</u>

The accompanying notes are an integral part of the basic financial statements.

**DEPARTMENT OF THE ATTORNEY GENERAL  
STATE OF HAWAII  
Statement of Assets and Liabilities  
Agency Funds**

**June 30, 2007**

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	<u>Total Agency Funds</u>
ASSETS:	
Cash	\$ 6,437,942
Due from governmental funds	<u>175,827</u>
Total assets	<u><u>\$ 6,613,769</u></u>
LIABILITIES:	
Due to and held for agency recipients	<u>\$ 6,613,769</u>
Total liabilities	<u><u>\$ 6,613,769</u></u>

The accompanying notes are an integral part of the basic financial statements.

# DEPARTMENT OF THE ATTORNEY GENERAL STATE OF HAWAII

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2007

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### 1. Summary of Significant Accounting Policies

The Department of the Attorney General of the State of Hawaii (AG) administers and renders legal services, including furnishing written legal opinions to the Governor, State Legislature, and such state departments and offices as the Governor may direct; represents the State of Hawaii (State) in all civil actions in which the State is a party; approves as to legality and form all documents relating to the acquisition of any land or interest in land by the State; and unless otherwise provided by law, prosecutes cases involving agreements, uniform laws, or other matters which are enforceable in the courts of the State.

The AG's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the AG are discussed below.

#### **Financial Reporting Entity**

The AG is part of the executive branch of the State. The AG's financial statements reflect only its portion of the activities attributable to the AG. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually which includes the AG's financial activities.

The accompanying financial statements reflect the financial position and results of operations of the following divisions of the AG:

**Administrative Services Office** – This office provides fiscal, personnel, data processing, library, messenger, and reception services, and other support services to the department and its operating divisions.

**Office of Child Support Hearings (OCSH)** – The Office of Child Support Hearings is an office funded with state and federal funds that provides a fair and impartial forum for expeditious resolution of child support disputes. Once a part of the Child Support Enforcement Agency, the office has been a separate office of the department since 1992. The office has concurrent jurisdiction with the court in proceedings in which a support obligation is established, modified, or terminated. Attorney hearings officers issue orders establishing, modifying, terminating, and enforcing child support obligations.

**Child Support Enforcement Agency** – The Child Support Enforcement Agency provides assistance to children by locating parents, establishing paternity and support obligations (both financial and medical), and enforcing those obligations.

**Hawaii Criminal Justice Data Center** - The Hawaii Criminal Justice Data Center is responsible for the statewide criminal justice information system (CJIS-Hawaii), the statewide Automated Fingerprint Identification System (AFIS), the statewide sex offender registry, and the issuance of state identification cards.

**Investigations Division** – The Investigations Division conducts investigations in support of the department's civil, criminal, and administrative cases. These investigations involve such areas as homeland security; Internet crimes against children; high technology computer crimes; drug nuisance abatement; environmental crimes; tobacco tax enforcement; airport, harbors, and highways; cold homicide cases; and other criminal and civil matters.

**Crime Prevention And Justice Assistance Division** – The Crime Prevention and Justice Assistance Division serves as a central point for obtaining, disseminating, and maintaining information regarding available financial (federal and state funds) and non-financial resources to assist in improving the coordination of programs of the criminal justice and juvenile justice systems and agencies. It administers grants, provides training and technical assistance, engages in multi-agency and statewide planning efforts, conducts crime prevention programs, as well as researches and analyses crime issues. The Juvenile Justice Information System, which tracks youths from arrest to parole, is also a responsibility of the division.

#### **Legal Services –**

- **Administration Division:** The Administration Division is principally responsible for commercial and financial-related legal issues. The division provides legal advice and litigation support to various departments and offices, including the Office of the Governor; the Office of the Lieutenant Governor; the Department of Accounting and General Services (including the State Foundation on Culture and the Arts, the Stadium Authority, and the State Procurement Office); the Department of Budget and Finance (including advice regarding bond matters and advice to the Employees' Retirement System, the Employer-Union Health Benefits Trust Fund, and the Office of the Public Defender); the Judiciary (including the Commission on Judicial Conduct, the Office of Disciplinary Counsel, the Judiciary Personnel Appeals Board, the Judicial Selection Commission; general consultation with and advice to the staff attorney's office, and representation of judges in writs and civil lawsuits); the Hawaii State Land Use Commission; the Hawaii State Commission on the Status of Women; the Campaign Spending Commission; and the Office of Elections.
- **Civil Recoveries Division:** This division systematically recovers and collects monies ranging from accounts receivable, dishonored checks, delinquent loans, salary and benefit overpayments, complex delinquent child support cases, civil judgments, delinquent patient accounts, property damage claims, lease rents, construction litigation, contract disputes and miscellaneous fees owed to the State and its agencies. In addition, it represents the State in major contract or construction disputes.
- **Civil Rights Litigation:** This division provides legal defense to all State departments and agencies that are sued for monetary damages in cases that may involve an element of personal injury, but primarily arise from allegations of constitutional/civil rights violations.

- **Commerce and Economic Development Division:** The Commerce and Economic Development Division provides legal services and litigation support to the Department of Commerce and Consumer Affairs (including the professional and vocational licensing boards), the Department of Business, Economic Development, and Tourism (including the Aloha Tower Development Corporation, the Hawaii Strategic Development Corporation, the Hawaii Tourism Authority, the High Technology Development Corporation, and the Natural Energy Laboratory of Hawaii Authority), and the Department of Agriculture (including the Agribusiness Development Corporation). The division also enforces the antitrust laws, administers the laws providing for the commissioning of notaries public, and provides legal services to the Board of Trustees of the State's Deferred Compensation Plan and to other state agencies involved in administering tax deferral programs.
- **Commission To Promote Uniform Legislation** – This commission was placed in the AG to provide advice on matters relating to the promotion of uniform legislation in accordance with HRS Chapter 3 (Uniformity of Legislation) and Section 26-7. The commission consists of five members appointed by the Governor and confirmed by the State Senate, who serve without compensation for a term of four years.
- **Criminal Justice Division:** The Criminal Justice Division performs prosecutorial functions on behalf of the State in areas such as welfare fraud, tax fraud, unemployment fraud, unauthorized practice of law, and public corruption. The division is also responsible for prosecuting Internet crimes against children, high technology crimes, Medicaid fraud and elder abuse, violations of state tobacco laws, drug nuisance, environmental crimes, cold homicide cases, and conflict cases from the four county prosecutors' office. The Missing Child Center-Hawaii is administratively attached to this division, and is Hawaii's only clearinghouse assisting in the recovery of missing or abducted children.
- **Education Division:** The Education Division principally provides legal advice and support to the Department of Education and the Board of Education. Other clients include the Charter School Administrative Office and the Charter Schools; the Hawaii Teacher Standards Board; the Research Corporation of the University of Hawaii; and the Hawaii State Public Library System.
- **Employment Law Division:** The Employment Law Division provides legal representation and advice to the Department of Human Resources Development and to all state departments and agencies on employment-related issues. The division represents all state employers in mandatory arbitration hearings, administrative agency hearings, and civil litigation involving disputes over employment matters with the State's employees.
- **Family Law Division:** The Family Law Division handles all state litigation under the jurisdiction of Family Court, such as child and adult protection, guardianships, truancy, adolescent mental health cases, and involuntary civil mental commitment hearings. Clients include the Department of Health, the Department of Human Services, the Department of Education, and the Office of the Public Guardian. The division also provides support to the Child Support Enforcement Agency.
- **Health and Human Services Division:** The Health and Human Services Division provides the principal legal services and support to the Department of Health and the Department of Human Services. The division enforces the State's environmental laws, provides legal advice to all Department of Health and Department of Human Services programs, takes appeals to circuit court from administrative decisions, defends actions against the State in both State and federal court, and handles some appeals in both the State and federal appellate systems.

- **Labor Division:** The Labor Division provides legal services and litigation support to the Department of Labor and Industrial Relations and boards and agencies administratively attached to that department, including the State Fire Council. In connection with its enforcement of the various labor laws, the division also collects penalties, fines, and reimbursements.
- **Land/Transportation Division:** The Land/Transportation Division provides legal services to both the Department of Land and Natural Resources (DLNR) and the Department of Transportation (DOT). These assignments include servicing all divisions of the DLNR (Aquatic Resources, Boating, Conservation and Resources Enforcement, Forestry and Wildlife, Land, State Historic Preservation, State Parks, and Water Resource Management) and the DOT (Airports, Harbors, and Highways). The division also provides services to the following attached commissions, boards, or agencies: Kaho'olawe Island Reserve Commission, Natural Area Reserves System Commission, Bureau of Conveyances, the four island Burial Councils, Hawaii Historic Places Review Board, Hawaii Invasive Species Council, Commission on Transportation, State Highway Safety Council, and Medical Advisory Board. Most tort litigation involving the DLNR or the DOT is handled by another division, but the Land/Transportation Division handles a number of cases involving the State as a landlord and as a source of permits or as regulator. The division is responsible for all quiet title actions involving the State and virtually all state eminent domain actions, the bulk of which are done on behalf of the state highways program. The division prepares land disposition documents for the DLNR and the DOT and prepares office leases for the Department of Accounting and General Services when state agencies rent private property as tenants. The division reviews for legality its clients' contracts and administrative rules. The litigation that the division handles includes enforcement actions for violations of the State Historic Preservation law and the law governing land use in conservation districts and actions for damage to natural resources of the State. The division is working on several of the DOT's complex construction cases.
- **Legislative Division:** The Legislative Division provides legal services on matters pertaining to legislation and to proposed administrative rules. The division coordinates the preparation and review of all legislative bills proposed by the executive branch agencies and coordinates the review, monitoring, and evaluation of all legislative bills during and after each session of the Legislature. In addition, the division coordinates, monitors, and reviews the preparation of administrative rules of the Department of the Attorney General. This division also performs the final review of the formal opinions issued by the Attorney General and performs the initial review of complaints involving the Sunshine Law.
- **Medicaid Fraud Division:** This division is responsible for planning, supervising and coordinating the investigations of provider fraud and abuse in the Medicaid Program.
- **Public Safety, Hawaiian Home Lands, and Housing Division:** The Public Safety, Hawaiian Home Lands, and Housing Division provides legal services and support to the Department of Public Safety, the Department of Hawaiian Home Lands, the Hawaii Public Housing Authority, and the Hawaii Community Development Agency. The division is responsible for reviewing pardon applications and extradition documents, and responding to petitions for release from inmates under Rule 40 of the Hawaii Rules of Penal Procedure.
- **Tax Division:** The Tax Division provides legal representation and advice to the Department of Taxation and other state departments and agencies, primarily in the areas of tax litigation, legislation, rules, investigations, and opinions and advice. The division contains an informal bankruptcy unit devoted to handling all bankruptcy cases for the Department of Taxation, and occasionally assists other agencies in bankruptcy matters. The division represents the Attorney

occasionally assists other agencies in bankruptcy matters. The division represents the Attorney General in the oversight and enforcement of laws pertaining to charitable trusts, public charities, public benefit corporations, and private foundations. The division is also responsible for the department's registration and bonding function for professional solicitors and professional fundraising counsels under HRS chapter 467B, and enforcement of the State's charitable solicitation laws. The division is the custodian of certifications by charities that issue charitable gift annuities under HRS § 431:204(b).

- **Tort Litigation Division:** The Tort Litigation Division provides legal defense to personal injury lawsuits and claims made against the State and its departments and agencies. The division does not have primary responsibility for giving advice and counsel to any state department or agency, to provide representation in criminal matters, or to collect monies owed to the State. In general, the services provided by the division include accepting service of legal complaints for the Attorney General, answering legal complaints made against state departments and agencies, investigating claims, conducting discovery on claims, and representing state interests in arbitrations, mediations, and trials.

## **Basis of Presentation – Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The AG's funds are grouped into one broad fund category for financial statement presentation purposes; the Governmental fund (Fund). The Fund includes the general and special revenue funds. The AG has four fiduciary agency funds.

## **Basis of Accounting**

### **Government – Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the department.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. But this approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the State.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **Fund Financial Statements**

Fund financial statements report detailed information about the AG. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.



## **Governmental Funds**

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus.

The following is a description of the governmental funds of the AG:

- **General Fund** – This is the AG’s primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- **Special Revenue Funds** – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

When both restricted and unrestricted resources are available for use, it is the AG’s policy to use restricted resources first, and then unrestricted resources as they are needed.

## **Revenue Recognition**

Under the modified accrual basis of accounting, revenues and related current assets are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Measurable means that the amount of the transactions can be determined. Available means that the amount is collected in the current fiscal year or soon enough after fiscal year-end to liquidate liabilities existing at the end of the fiscal year. Revenues susceptible to accrual include funds appropriated by the State Legislature and allotted by the Governor.

## **Expenditure Recognition**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

## **Agency Funds**

The AG has four agency funds. These funds are purely custodial and thus cannot be said to have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables and payables and report only assets and liabilities.

## **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **Cash and Cash Equivalents**

The AG’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

## **Capital Assets**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. In accordance with the State's "New Statewide Capitalization Policy" (Policy), furniture and equipment purchased or acquired with a cost greater than \$5,000 and buildings with a cost greater than \$100,000, are capitalized at historical cost or estimated historical cost, and depreciated using the straight-line method. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

In accordance with the Policy, the AG provides for depreciation using the range of estimated lives as follows:

<u>Range of Estimated Useful Lives</u>	
Buildings and improvements	30 years
Office furniture and equipment	7 years

Departments sharing the same building and improvements with other departments of the State report its allocated share of the cost as determined by the State's Department of Accounting and General Services (DAGS).

## **Appropriations**

An authorization granted by the State Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year.

## **Accumulated Vacation and Sick Leave**

Employees' vested annual vacation and sick leave are recorded as expenditures when actually taken. The employees of the AG are entitled to receive cash payment for accumulated vacation leave upon termination. The liability for such accumulated vacation leave pay is maintained separately and represents a reconciling item between the governmental funds and government-wide financial statement presentations.

## **Intrafund and Interfund Transactions**

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. Other interfund activity, such as loans, are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation.

## **Grants**

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.

## **Risk Management**

The AG is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

## **2. Compliance And Accountability**

### **Budget Requirements, Accounting and Reporting**

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Budgeted revenues are those estimates as compiled by the AG and budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

Summarization of the budgets adopted by the State Legislature for the general and special revenue funds is presented in the Budgetary Comparison Schedule. For purposes of budgeting, the AG's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with generally accepted accounting principles (GAAP). The AG's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations, and (2) special revenue fund program grant accruals and deferrals.

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP follows:

	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>
Sources/inflows of resources:			
Actual amounts (budgetary basis) "amounts available for appropriation" from the budgetary comparison schedule	\$ 31,863,247	\$ 8,268,875	\$ 7,945,687
Differences - budget to GAAP:			
The fund (balance) deficit at the beginning of the year affects budgetary resources but not revenues for financial reporting purposes	-	5,416,666	932,228
Revenues for financial reporting purposes which are not budgetary resources	7,070,265	276,920	379,883
Budgetary resources not revenues for financial reporting purposes	(7,172,069)	-	(150,000)
Adjustments for prior receivables for financial reporting purposes which are not budgetary resources	-	-	227,386
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 31,761,443</u>	<u>\$ 13,962,461</u>	<u>\$ 9,335,184</u>
	<u>General Fund</u>	<u>Child Support Enforcement</u>	<u>Legal Services</u>
Charges to appropriations/outflows:			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 31,863,247	\$ 15,240,407	\$ 9,276,791
Differences - budget to GAAP:			
Reserve for encumbrances at year-end are outflows for budgetary resources but are not expenditures for financial reporting purposes	(1,931,037)	-	-
Adjustments for accrued expenses which are not outflows of budgetary resources but are expenditures for financial reporting purposes	5,396,813	(167,409)	(60,091)
Outflows of budgetary resources which are not expenditures for financial reporting purposes.	-	(1,281,852)	(993,883)
Other expenditures for financial reporting purposes which are not outflows of budgetary	-	902,214	2,602,243
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 35,329,023</u>	<u>\$ 14,693,360</u>	<u>\$ 10,825,060</u>

### **Interfund Transactions**

As of June 30, 2007, the General Fund and other governmental funds of the AG reflected interfund receivables and payables for expense reimbursements owed between funds. The Child Support Enforcement Agency's (CSEA) expendable trust fund reflected a receivable of \$175,827 which is owed by CSEA's federally funded special revenue fund. In addition, CSEA's special revenue fund reflected a receivable of \$5,813 which is owed by the AG's General Fund. The legal services special revenue fund reflected a payable of \$3,053 owed to a nonmajor special revenue fund.

### **3. Cash**

The State maintains a cash pool that is available for all funds. Each fund type's portion of this pool (reported as cash in the State Treasury) is displayed on the statement of net assets or balance sheet as "Cash". Those funds are pooled with funds from other state agencies and departments and deposited in approved financial institutions by the director of the State Department of Budget and Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third-party custodians.

The AG also maintains certain funds in two bank accounts held separately from the State Treasury. One bank account is used primarily for CSEA agency transactions. As of June 30, 2007, the carrying amount of this account was \$5,958,122 and was reflected in "Cash" of the Agency Fund's Statement of Assets and Liabilities.

The second bank account, opened in fiscal year 2003, is used solely to account for the federal share of child support payment collections retained by CSEA under PRWORA and the TANF program. As the use of these funds are for CSEA's benefit, this account is reflected in "Cash" of the Governmental Fund's Balance Sheet under the special revenue fund for Child Support Enforcement. As of June 30, 2007, the carrying amount of this TANF bank account was \$1,556,991.

#### 4. Capital Assets And Depreciation

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Deductions and Other	Ending Balance
Buildings and improvements				
Cost	\$ 9,117,450	\$ 11,953	\$ -	\$ 9,129,403
Accumulated depreciation	(5,474,781)	(296,303)	1,341	(5,769,743)
Building and improvements - net	<u>\$ 3,642,669</u>	<u>\$ (284,350)</u>	<u>\$ 1,341</u>	<u>\$ 3,359,660</u>
Office furniture and equipment				
Cost	\$ 809,244	\$ 100,588	-	\$ 909,832
Accumulated depreciation	(500,106)	(95,115)	-	(595,221)
Office furniture and equipment - net	<u>\$ 309,138</u>	<u>\$ 5,473</u>	<u>\$ -</u>	<u>\$ 314,611</u>
Capital assets - net	<u>\$ 3,951,807</u>	<u>\$ (278,877)</u>	<u>\$ 1,341</u>	<u>\$ 3,674,271</u>

Depreciation expense was charged to functions of the AG as follows:

Governmental activities:

General administration and legal services	\$ 189,950
Drug control and crime prevention	111,892
Criminal history and state identification	64,709
Child support enforcement	24,867

Total governmental activities depreciation expense	<u>\$ 391,418</u>
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#### 5. Accrued Vacation

For the year ended June 30, 2007, changes in accrued vacation, were as follows:

Balance at July 1, 2006	\$ 5,017,951
Net increase	<u>229,813</u>
Balance at June 30, 2007	<u>\$ 5,247,764</u>

## 6. Non-Imposed Employee Fringe Benefits

Payroll fringe benefit costs of the AG's employees funded by state appropriations (general fund) are assumed by the State and are not charged to the AG's operating funds. These costs, totaling approximately \$6,807,000 for the year ended June 30, 2007, have been reported as revenues and expenditures of the AG's general fund.

## 7. Related Party Transactions

Certain AG employees perform services for other state departments and agencies. Accordingly, the AG receives payroll reimbursements from those departments and agencies. Reimbursements have been recorded as revenues in the special revenue fund to which the payroll costs were actually charged. Reimbursements totaled approximately \$3,793,000 for the fiscal year ended June 30, 2007.

## 8. Lease Commitments

The AG leases office facilities and office equipment on a long-term basis, the expenditures of which are reported in the general and special revenue funds. The following is a schedule of minimum future rentals on noncancellable operating leases expiring through June 2012:

Year ending June 30,	
2008	\$ 345,000
2009	337,000
2010	302,000
2011	203,000
2012	53,000
	<u>\$ 1,240,000</u>

Total rent expense for the fiscal year ended June 30, 2007 was approximately \$412,000.

## 9. Employee Benefits

### Employees' Retirement System

**Plan Description** - All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer 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 (CAFR) 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

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

### **Post-Retirement Health Care and Life Insurance Benefits**

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

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium.

For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 26,000 state retirees receiving such benefits. Free life insurance



coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis.

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

### **Cost of Retirement Benefits**

The AG's general fund share of the expenses for pension and post-retirement benefits for the year ended June 30, 2007 are paid from the State General Fund and is not reflected in the AG's financial statements. The AG's special revenue fund share of pension and post-retirement health insurance benefits expenses for the fiscal year ended June 30, 2007 were approximately \$1,842,000 and \$1,141,000, respectively, and is included in the special revenue funds' financial statements.

## **10. Risk Management**

The AG is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees.

**Torts** – The AG is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the AG's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

**Property and Liability Insurance** – The State has purchased property damage insurance for losses that may occur for substantially all state facilities, including those of the AG. The deductible is \$1,000,000 per occurrence. The deductible for windstorm, earthquake, flood, tsunami and volcanic action coverage is 3% of loss subject to a \$1,000,000 minimum. The limit of loss per occurrence is \$40,000,000, except for windstorm which is \$100,000,000. This policy also includes terrorism coverage whose limit of loss per occurrence is \$50,000,000 with a deductible of \$1,000,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with maximum limits of \$10,000,000 per occurrence with \$500,000 deductibles. Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

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 AG. The State has personal injury and property damage liability, including errors and omissions, automobile and employment practices, insurance policy in force with a \$3,000,000 self-insurance 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 appropriation of the State's General Funds.

***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.

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2007 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. As of June 30, 2007, there were no liabilities recorded for such claims in the accompanying financial statements. In the opinion of management, there were no claims which needed to be reserved for as of June 30, 2007.

## **11. Commitments And Contingencies**

***Accumulated Sick Leave*** - Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2007 approximated \$15,179,000.

***Deferred Compensation Plan*** - The State has a deferred compensation plan which enables state employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the State's general creditors in an amount equal to the fair value of the deferred account for each participant.

## **12. Criminal Forfeiture Revolving Fund**

The AG is the coordinating agency for the Hawaii Omnibus Criminal Forfeiture Act (Act). Pursuant to this Act, the AG is mandated to process petitions for administrative forfeiture of personal property and to distribute administratively or judicially forfeited property, or its proceeds, to law enforcement agencies according to a specified formula.

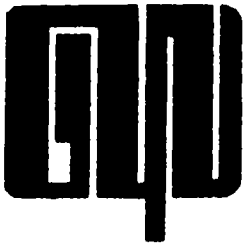
Forfeited property is recorded as revenue in a special revenue fund at the time of forfeiture, and the funds may be used for specified purposes only. Currency seized by a law enforcement agency and held by the AG pending a forfeiture decision is recorded in an agency fund. Any bonds posted in connection with judicial forfeitures are similarly recorded.

## **13. Welfare Reform Act**

The enactment of Public Law 104-193, the Personal Responsibility And Work Opportunity Reconciliation Act of 1996 (PRWORA), implemented changes in the availability of federal funding and in the information required to compute State grant awards. PRWORA made effective the "Temporary Assistance for Needy Families" (TANF) Program under Title IV-A of the Social Security Act and repealed the "Aid to Families With Dependent Children" (AFDC) Program under Title IV-A of the Act.

#### **14. Litigation**

The AG was a defendant in class action lawsuit alleging that CSEA had improperly delayed the disbursement of child support payments. In October 2002, the Circuit Court of the First Circuit of the State of Hawaii (Court) determined that CSEA had been disbursing the “overwhelming majority of child support payments” within required time frames. However, the Court required CSEA to provide an accounting of its outstanding child support payment checks as of December 31, 2002 and of checks returned due to bad addresses, and to disburse these amounts. Any remaining unpaid funds would be set aside to establish a “common fund” to be used for the benefit of those plaintiffs who brought the class action suit. In July 2003, the Court issued its “Final Judgment” regarding the lawsuit. Included in the Judgment was a requirement for CSEA to solicit claims from those individuals whose names are included on the lists and to disburse all uncashed and “bad addresses” checks to those individuals who subsequently filed claims. CSEA had until March 31, 2004 to disburse the funds. In accordance with the establishment of a “common fund”, any remaining funds are to be used to pay for the plaintiff’s attorney’s fees and costs, which amount to approximately \$503,000. The AG is opposed to the establishment of such a fund since any remaining unpaid funds represent monies belonging to custodial parents. The Court did not grant any other monetary relief to the plaintiffs.



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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Attorney General  
State of Hawaii

We have audited the financial statements of the Department of the Attorney General of the State of Hawaii (AG), as of and for the year ended June 30, 2007, and have issued our report thereon dated December 28, 2007. 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.

### **Compliance**

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

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the AG's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one

or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink, appearing to read "A. L. Williams CPA LHC". The signature is written in a cursive, flowing style.

December 28, 2007



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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Attorney General  
State of Hawaii

### Compliance

We have audited the compliance of the Department of the Attorney General of the State of Hawaii (AG), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The AG's 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 AG's management. Our responsibility is to express an opinion on the AG's compliance based on our audit.

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 AG's 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 on the AG's compliance with those requirements.

In our opinion, the AG complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of the AG is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered AG's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, 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.

A handwritten signature in black ink, appearing to read "A. Livingston" followed by a stylized flourish or initials.

December 28, 2007

**Department of the Attorney General  
State of Hawaii  
Schedule of Expenditure of Federal Awards  
For the Year Ended June 30, 2007**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<u>U.S. Department of Justice</u>			
Hawaii Anti-Trafficking Task Force	16.320	2005-VT-BX-0008	\$ 31,795
Safe Havens: Supervised Visitation and Safe Exchange Grant Program	16.527	2003-CW-BX-0019 2006-CW-AX-0007	39,158 170,748 <u>209,906</u>
FY2004 OJJDP Congressional Earmark Program	16.541	2004-JL-FX-K016 2005-JL-FX-K038	49,486 291,479 <u>340,965</u>
Hawaii ICAC Task Force	16.543	2005-MC-CX-K005	<u>234,143</u>
Hawaii State Justice Statistics Program for Statistical Analysis	16.550	2002-BJ-CX-K006	<u>217</u>
Hawaii National Criminal History Improvement	16.554	2000-RG-CX-K011 2000-RU-BX-K018	655,479 167,151 <u>822,630</u>
FY 2002 Paul Coverdale National Forensic Sciences Improvement Act	16.56	2004-DN-BX-0154	<u>47,052</u>
Funding of DNA for Law Enforcement	16.56	2005-DN-BX-K026	<u>45,769</u>
Crime Victim Assistance (VOCA)	16.575	2003-VA-GX-0021 2004-VA-GX-0051 2005-VA-GX-0046	489,503 934,108 100,000 <u>1,523,611</u>
Byrne Formula Grant Program (Drug Control and Systems Improvement)	16.579	2002-DB-BX-0015 2003-DB-BX-0027 2004-DB-BX-0038	3,981 182,810 725,363 <u>912,154</u>
STOP Violence Against Women Formula Grant	16.588	2002-WF-BX-0041 2003-WF-BX-0218 2004-WF-AX-0036 2005-WF-AX-0029	9,237 69,055 484,960 251,719 <u>814,971</u>

See notes to schedule of expenditures of federal awards.



**Department of the Attorney General  
State of Hawaii  
Schedule of Expenditure of Federal Awards  
For the Year Ended June 30, 2007**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Rural Domestic Violence & Child Victim Program	16.589	1999-WR-VX-0060 2004-WR-AX-0044	17,065 211,463 <u>228,528</u>
Grants to Encourage Arrest Policies	16.59	2003-WE-BX-0020	<u>18,535</u>
Hawaii Residential Substance Abuse Treatment	16.593	2003-RT-BX-0006	<u>342,500</u>
COPS Methamphetamine Program	16.710	2004-CK-WX-0283	<u>34,364</u>
SOH FY2005 Application for the Edward J. Byrne Memorial Justice Assistance Grant (JAG)	16.738	2005-DJ-BX-1471 2006-DJ-BX-0024	681,942 30,400 <u>712,342</u>
Total U.S. Department of Justice			<u>\$ 6,319,482</u>
<u>U.S. Department of Health and Human Services</u>			
Child Support Enforcement (Title IV-D)	93.563	G-04-04-HI-4004 G-06-04-HI-4004 G-07-04-HI-4004	\$ 697,731 422,318 10,904,012 <u>12,024,061</u>
State Medicaid Fraud Control Units	93.775	01-0601-HI-5050 01-0701-HI-5050	235,811 733,726 <u>969,537</u>
Total U.S. Department of Health and Human Services			<u>\$ 12,993,598</u>
Total Expenditures of Federal Awards			<u>\$ 19,313,080</u>

See notes to schedule of expenditures of federal awards.

# STATE OF HAWAII

## DEPARTMENT OF THE ATTORNEY GENERAL

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2007

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#### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department of the Attorney General of the State of Hawaii (AG) and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

#### 2. Subrecipients

Of the federal expenditures presented in the schedule, the AG provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Hawaii Anti-Trafficking Task Force	16.320	\$ 31,495
Safe Havens: Supervised Visitation and Safe Exchange Grant Program	16.527	199,860
Paul Coverdale National Forensic Sciences Improvement Act	16.56	47,052
Crime Victim Assistance (VOCA)	16.575	1,449,215
Byrne Formula Grant Program (Drug Control and System Improvement)	16.579	711,643
STOP Violence Against Women Formula Grant	16.588	722,723
Rural Domestic Violence & Child Victim Program	16.589	194,693
Grants to Encourage Arrest Policies	16.59	18,535
Hawaii Residential Substance Abuse Treatment	16.593	341,000
COPS Methamphetamine Program	16.710	34,364
SOH FY 2005 Application for the Edward J. Byrne Memorial Justice Assistance Grant (JAG)	16.738	708,342
		<u>\$ 4,458,922</u>

**State of Hawaii**  
**Department of the Attorney General**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2007**

**Section I – Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses?  
\_\_\_\_\_ yes ☒ none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes ☒ no

Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses?  
\_\_\_\_\_ yes ☒ none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ yes ☒ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
16.554	Hawaii National Criminal History Improvement
16.575	Crime Victim Assistance (VOCA)
16.579	Bryne Formula Grant Program
16.588	STOP Violence Against Women Formula Grant
16.738	SOH FY2005 Application for the Edward J. Bryne Memorial Justice Assistance Grant
93.563	Child Support Enforcement (Title IV-D)
93.775	State Medicaid Fraud Control Units

Dollar threshold used to distinguish between type A and type B programs: \$500,000  
Auditee qualifies as low-risk auditee? ☒ yes \_\_\_\_\_ no

**State of Hawaii**  
**Department of the Attorney General**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2007**

**Section II – Financial Statement Findings**

There were no current year findings related to the financial statements.

**State of Hawaii**  
**Department of the Attorney General**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2007**

**Section III – Federal Award Findings and Questioned Costs**

There were no current year findings related to the federal awards.

**State of Hawaii**  
**Department of the Attorney General**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2007**

**Section IV – Prior Year Audit Findings**

There were no prior year audit findings.