

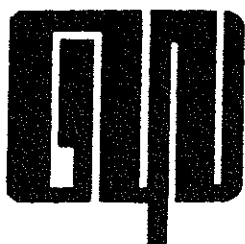
Department of the Attorney General State of Hawaii

**Financial Statements with Accompanying
Information for the Year Ended June 30, 2005 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, 2005, 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.

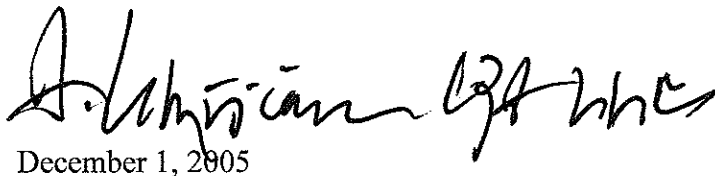
As discussed in Note 1 to the basic financial statements, the financial statements of the AG are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Hawaii that is attributable to the transactions of the AG. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2005, 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, 2005, 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 1, 2005 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 grants. 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 "J. Whisman CPA". The signature is fluid and cursive, with the "CPA" part being more distinct and written in a slightly larger, bolder script than the name.

December 1, 2005

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

June 30, 2005

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, legal 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, 2005. 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, 2005 by \$10,284,658 (net assets). Of this amount, \$4,324,095 was invested in capital assets and \$1,515,053 was restricted for various purposes. Net assets of the AG decreased by \$928,037 or 8% from the prior fiscal year.

Total revenues decreased by \$7,128,859 or 11% in fiscal 2005 due primarily to decreases in operating grants and contributions to general administrative and legal services and the criminal history and State identification program. In addition, general revenues from State allotted appropriations also decreased. Total expenses decreased by \$1,619,968 or 3% in fiscal 2005 due primarily to reductions in general administrative and legal services. As a result, the change in net assets decreased from \$4,580,854 in the prior fiscal year to \$(928,037) in the current fiscal year.

Fund Financial Statement Highlights

At June 30, 2005, the AG's governmental funds reported combined ending fund balances of \$9,753,174, a decrease of \$458,520 or 4% from the prior fiscal year. Of this amount, \$8,238,121 or 84% of total fund balances are available for spending at the AG's discretion (unreserved fund balance) and the remaining \$1,515,053 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 \$7,648,815 at June 30, 2004 to \$1,515,053 at June 30, 2005. Correspondingly, the AG's unrestricted net assets increased from \$(960,565) at June 30, 2004 to \$4,445,510 at June 30, 2005. 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 2005 and 2004 include:

Statements of Net Assets	2005	2004
Current and other assets	\$ 20,771,180	\$ 27,759,347
Capital assets, net of accumulated depreciation	4,324,095	4,524,445
Total assets	<u>25,095,275</u>	<u>32,283,792</u>
Current liabilities	11,663,016	18,152,113
Noncurrent liabilities	3,147,601	2,918,984
Total liabilities	<u>14,810,617</u>	<u>21,071,097</u>
Net assets:		
Invested in capital assets	4,324,095	4,524,445
Restricted for various purposes	1,515,053	7,648,815
Unrestricted	4,445,510	(960,565)
Total net assets	<u>\$ 10,284,658</u>	<u>\$ 11,212,695</u>

Changes in Net Assets	2005	2004
Program revenues:		
Charges for services	\$ 3,545,569	\$ 3,809,177
Operating grants and contributions	28,467,932	34,368,595
General revenues	27,661,413	28,626,001
	<u>59,674,914</u>	<u>66,803,773</u>
Expenses:		
General administrative and legal services	33,910,959	37,598,851
Child support enforcement	13,883,576	14,036,463
Drug control and crime prevention	7,810,111	6,196,322
Criminal history and State identification	4,998,305	4,391,283
	<u>60,602,951</u>	<u>62,222,919</u>
Changes in net assets	(928,037)	4,580,854
Net assets - beginning of year	11,212,695	6,631,841
Net assets - end of year	<u>\$ 10,284,658</u>	<u>\$ 11,212,695</u>

Capital Assets

At June 30, 2005 and 2004, the AG's investment in capital assets amounted to \$4,324,095 and \$4,524,445, respectively, net of accumulated depreciation, representing a decrease of \$200,350 or 3%. 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. 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, 2005

	Governmental Activities	Total
ASSETS:		
Current assets:		
Cash	\$ 13,018,326	\$ 13,018,326
Due from grantor	6,322,111	6,322,111
Due from subgrantees	835,783	835,783
Due from other agencies	586,094	586,094
Due from other funds	8,866	8,866
Total current assets	20,771,180	20,771,180
Noncurrent assets:		
Capital assets - net of accumulated depreciation	4,324,095	4,324,095
Total noncurrent assets	4,324,095	4,324,095
Total assets	\$ 25,095,275	\$ 25,095,275

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, 2005

	Governmental Activities	Total
LIABILITIES:		
Current liabilities:		
Due to State of Hawaii	\$ 6,230,137	\$ 6,230,137
Accrued vacation - current	1,674,155	1,674,155
Accrued wages and employee benefits payable	1,369,924	1,369,924
Vouchers and contracts payable	783,876	783,876
Deferred revenue	781,881	781,881
Due to subgrantees	590,850	590,850
Due to agency funds	175,827	175,827
Legislative relief payable	47,500	47,500
Due to other funds	8,866	8,866
Total current liabilities	11,663,016	11,663,016
Long-term liabilities:		
Accrued vacation	3,147,601	3,147,601
Total long-term liabilities	3,147,601	3,147,601
Total liabilities	14,810,617	14,810,617
NET ASSETS:		
Invested in capital assets	4,324,095	4,324,095
Restricted for various purposes	1,515,053	1,515,053
Unrestricted	4,445,510	4,445,510
Total net assets	10,284,658	10,284,658
Total liabilities and net assets	\$ 25,095,275	\$ 25,095,275

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, 2005

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General administrative and legal service	\$ 33,910,959	\$ 78,798	\$ 9,798,088	\$ (24,034,073)
Child support enforcement	13,883,576	1,470,000	10,450,323	(1,963,253)
Drug control and crime prevention	7,810,111	-	7,803,832	(6,279)
Criminal history and State identification	4,998,305	1,996,771	415,689	(2,585,845)
Total governmental activities	<u>\$ 60,602,951</u>	<u>\$ 3,545,569</u>	<u>\$ 28,467,932</u>	<u>(28,589,450)</u>
General revenues - State allotted appropriations				<u>27,661,413</u>
Change in net assets				(928,037)
Net assets - beginning of year				<u>11,212,695</u>
Net assets - end of year				<u>\$ 10,284,658</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, 2005

	General Fund	Child Support Enforcement	Legal Services	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash	\$ 1,540,453	\$ 3,616,519	\$ 5,846,444	\$ 2,014,910	\$ 13,018,326
Due from grantor	-	4,702,116	-	590,850	5,292,966
Due from subgrantee	835,783	-	-	-	835,783
Due from other state agencies	-	-	586,094	-	586,094
Due from other funds	-	5,813	-	3,053	8,866
Total assets	\$ 2,376,236	\$ 8,324,448	\$ 6,432,538	\$ 2,608,813	\$ 19,742,035

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, 2005

	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	\$ 1,502,622	\$ -	\$ 6,230,137
Accrued wages and employee benefits payable	682,920	255,538	376,429	55,037	1,369,924
Accounts payable	311,220	260,683	76,117	135,856	783,876
Deferred revenues	-	781,881	-	-	781,881
Due to subgrantees	-	-	-	590,850	590,850
Due to agency funds	-	175,827	-	-	175,827
Legislative relief payable	47,500	-	-	-	47,500
Due to other funds	5,813	-	3,053	-	8,866
Total liabilities	1,072,853	6,176,044	1,958,221	781,743	9,988,861
Fund balances:					
Reserved for encumbrances	1,515,053	-	-	-	1,515,053
Unreserved, reported in					
General fund	(211,670)	-	-	-	(211,670)
Special funds	-	2,148,404	4,474,317	1,827,070	8,449,791
Total fund balances	1,303,383	2,148,404	4,474,317	1,827,070	9,753,174
Total liabilities and fund balances	\$ 2,376,236	\$ 8,324,448	\$ 6,432,538	\$ 2,608,813	\$ 19,742,035

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, 2005

Total fund balance - governmental funds	\$ 9,753,174
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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.	4,324,095
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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.	(3,792,611)
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Net assets of governmental activities	<u>\$ 10,284,658</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, 2005

	General Fund	Child Support Enforcement	Legal Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
State allotted appropriations	\$ 27,661,413	\$ -	\$ -	\$ -	\$ 27,661,413
Fees and others	-	1,584,380	2,299,605	2,047,527	5,931,512
Intergovernmental	-	-	1,246,787	8,015,333	9,262,120
Special fund revenues	-	4,754,294	5,823,338	-	10,577,632
Share of TANF collections	-	5,581,649	-	-	5,581,649
Litigation settlements	-	-	350,000	-	350,000
Total revenues	<u>27,661,413</u>	<u>11,920,323</u>	<u>9,719,730</u>	<u>10,062,860</u>	<u>59,364,326</u>
Expenditures:					
General administrative and legal service	21,975,651	-	11,518,657	-	33,494,308
Child support enforcement	2,633,668	11,218,229	-	-	13,851,897
Drug control and crime prevention	-	-	-	7,698,218	7,698,218
Criminal history and State identification	2,191,843	-	-	2,710,074	4,901,917
Capital expenditures	-	152,114	17,578	14,263	183,955
Total expenditures	<u>26,801,162</u>	<u>11,370,343</u>	<u>11,536,235</u>	<u>10,422,555</u>	<u>60,130,295</u>
Excess of revenues over (under) expenditures	<u>860,251</u>	<u>549,980</u>	<u>(1,816,505)</u>	<u>(359,695)</u>	<u>(765,969)</u>
Other financing sources (uses)	<u>(61,964)</u>	<u>-</u>	<u>215,981</u>	<u>153,432</u>	<u>307,449</u>
Net change in fund balances	<u>798,287</u>	<u>549,980</u>	<u>(1,600,524)</u>	<u>(206,263)</u>	<u>(458,520)</u>
Fund balances - beginning	<u>505,096</u>	<u>1,598,424</u>	<u>6,074,841</u>	<u>2,033,333</u>	<u>10,211,694</u>
Fund balances - ending	<u>\$ 1,303,383</u>	<u>\$ 2,148,404</u>	<u>\$ 4,474,317</u>	<u>\$ 1,827,070</u>	<u>\$ 9,753,174</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, 2005

Net change in fund balances - total governmental funds	\$ (458,520)
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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	\$ 183,955	
Depreciation expense	<u>(387,445)</u>	
Excess of depreciation expense over capital outlays		(203,490)

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.

(266,027)

Change in net assets of governmental activities

\$ (928,037)

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, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
General Fund				
Budgetary fund balance at July 1, 2004	\$ -	\$ -	\$ 389,557	\$ 389,557
Resources (inflows):				
State allotted appropriations	30,015,628	30,182,199	30,182,199	-
Charges to appropriations (outflows):				
General administrative and legal services	25,492,382	25,588,813	25,352,707	(236,106)
Child support enforcement	2,850,329	2,896,984	2,858,024	(38,960)
Criminal history and State identification	1,672,917	1,696,402	1,695,432	(970)
Total charges to appropriations	30,015,628	30,182,199	29,906,163	(276,036)
Budgetary fund balance at June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 665,593</u>	<u>\$ 665,593</u>
Child Support Enforcement				
Budgetary fund balance at July 1, 2004	\$ -	\$ -	\$ (1,056,697)	\$ (1,056,697)
Resources (inflows):				
Special fund revenues	16,465,672	16,654,135	10,336,959	(6,317,176)
Others	2,703,228	2,725,418	1,470,222	(1,255,196)
Amounts available for appropriation	19,168,900	19,379,553	10,750,484	(8,629,069)
Charges to appropriations (outflows):				
Child support enforcement	19,168,900	19,379,553	13,649,058	(5,730,495)
Budgetary fund balance at June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,898,574)</u>	<u>\$ (2,898,574)</u>
Legal Services				
Budgetary fund balance at July 1, 2004	\$ -	\$ -	\$ (491,983)	\$ (491,983)
Resources (inflows):				
Special fund revenues	4,329,245	4,347,810	2,057,358	(2,290,452)
Intergovernmental	1,392,277	1,416,853	1,001,851	(415,002)
Other	8,002,320	8,184,781	5,111,164	(3,073,617)
Amounts available for appropriation	13,723,842	13,949,444	7,678,390	(6,271,054)
Charges to appropriations (outflows):				
General administrative and legal services	13,723,842	13,949,444	8,369,536	(5,579,908)
Budgetary fund balance at June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (691,146)</u>	<u>\$ (691,146)</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, 2005

	<u>Total Agency Funds</u>
ASSETS:	
Cash	\$ 4,768,413
Due from governmental funds	<u>175,827</u>
Total assets	<u>\$ 4,944,240</u>
LIABILITIES:	
Due to and held for agency recipients	\$ 4,944,240
Due to others	<u>-</u>
Total liabilities	<u>\$ 4,944,240</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, 2005

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 management, accounting, data processing and other administrative services to the AG. Also included in this office is activity related to certain federal financial assistance programs.

Office of Child Support Hearings (OCSH) – This office establishes, modifies, enforces and terminates child support obligations through an administrative process in accordance with state and federal laws. It provides a fair administrative hearing for child support disputes pursuant to Chapters 91 and 576E, Hawaii Revised Statutes.

Child Support Enforcement Agency – This agency is responsible for formulating and implementing the State Child Support Enforcement Plan as required under Title IV-D of the Social Security Act and administering Hawaii Revised Statutes (HRS) Chapter 576D in accordance with Title IV-D and applicable state laws.

Hawaii Criminal Justice Data Center - The center manages the criminal justice information system and the criminal justice telecommunications network, provides statistical information and coordinates criminal identification resources in support of the criminal justice process in the State. The center also manages the State's Civil Identification Program.

Investigation Division – This division provides criminal, civil and administrative investigative services. It investigates the non-conformance or non-adherence to statutes or regulations of municipal and state agencies; investigates fraud and abuse directed against the State Medical Assistance (Medicaid) Program; investigates matters involving the disposition of persons convicted of criminal offenses which are submitted to the Office of the Governor through the board of pardons, parole or independent channels; and provides security services to the Governor, his/her immediate family, other state officials and visiting officials as required.

Crime Prevention And Justice Assistance Division – This division serves as a central agency for the maintenance of information regarding financial (federal and state funds) and nonfinancial resources that may be available to assist in improving the coordination of programs of the criminal justice and juvenile justice systems and agencies.

Legal Services –

- **Administrative Division:** This division provides legal services to the Office of the Governor, Office of the Lieutenant Governor, Department of Accounting and General Services, the Department of Budget and Finance, the Department of Business, Economic Development and Tourism (Land Use Commission), the Office of Elections, the Campaign Spending Commission, the Judiciary, and the Department of the Attorney General non-legal services divisions (Crime Prevention and Justice Assistance Division and Hawai'i Criminal Justice Data Center), as well as the Legislature. Legal services are also provided to the boards, commissions, and agencies which are either administratively assigned to the executive departments, or which are otherwise entitled to receive such services.
- **Commerce and Economic Development/Antitrust Division:** This division provides services to the Department of Commerce and Consumer Affairs (DCCA) and attached agencies; Department of Business, Economic Development, and Tourism (DBEDT) and attached agencies (except Land Use Commission, Hawaii Community Development Authority, and housing-related agencies); and the Department of Agriculture (DOA) and attached agencies. The Division also services the Deferred Compensation's Board of Trustees and advises the Department of Human Resources and Development (DHRD) and the Department of Budget and Finance on tax deferred benefit programs such as the college tuition savings program and flexible spending accounts. The Division is responsible for investigation and prosecution of violations of the antitrust laws and is also charged with commissioning and regulating notaries public.
- **Criminal Justice Division:** This division reviews and prosecutes, if appropriate, cases referred to the AG for criminal actions which involve a state official or a state agency, or cases which have statewide impact.

In addition, it provides assistance to the Office of the Prosecuting Attorney in each county, coordinates investigations and prosecutions of crimes occurring in more than one county and develops special prosecution units to investigate and prosecute selected crimes.

- **Employment Law Division:** This division is responsible for advising, counseling and representing the State in all matters arising out of its activities as an employer.
- **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:** This division provides legal services to the Department of Land and Natural Resources and the Department of Transportation. These services include handling federal and state civil litigation involving these two departments (other than cases assigned to the Litigation Division). The division's legal services include preparation and review of a variety of land conveyance documents, contracts, administrative rules, as well as providing legal advices both orally and through written advice letters.
- **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.
- **Tort Litigation:** This division provides legal defense to all State departments and agencies for monetary damages in personal injury/tort cases.
- **Special Assignment Division:** This division provides legal services on any special assignment as determined by the Attorney General, or First Deputy Attorney General.
- **Family Law Division:** This division provides representation at Family Court for all State Departments. This includes the Department of Human Services in child and adult abuse and neglect cases; the Department of Health (DOH) in involuntary hospitalization cases, and in Juvenile cases where the child is receiving Mental Health Services from DOH; the Department of Education (DOE) in truancy cases and in Juvenile cases where the child is receiving special services from DOE. It also includes the Office of the Public Guardian in cases where an incapacitated adult is in need of a Guardianship. The Division also provides legal services to the Child Support Enforcement Agency.
- **Medicaid Fraud Division:** This division is responsible for planning, supervising and coordinating the investigations of provider fraud and abuse in the Medicaid Program.
- **Tax Division:** This division performs and provides all legal services to the State Department of Taxation. These services include furnishing written and oral opinions; preparing of memoranda and responses to requests for legal determinations; appearing in the trial and appellate courts (federal and state courts) as necessary to prosecute or to defend matters in which the State Department of Taxation is a party, reviewing and, at times, preparing contract documents; and assisting in the collection of delinquent taxes. In addition to these legal services, the Tax Division also renders administrative services, including drafting appropriate rules, tax information releases, and tax memoranda; drafting replies for the director of taxation upon request; responding to the Governor's referrals for the director of taxation; responding to legislative requests and conferring with legislators in connection with those requests to address legislative concerns; responding to inquiries made by other state agencies; assisting county agencies in matters involving real property taxation; attending legislative hearings; and performing a myriad of other services when called upon by the State Department of Taxation.

The division also represents the Attorney General in the following matters: 1) Proceedings relating to charitable trusts, in his capacity as *parens patriae*; 2) Oversight and supervision of public charities that are organized as Hawaii non-profit Corporations and the enforcement of charity regulations; 3) Matters relating to private foundations that are formed or domiciled in the State of Hawaii; and Administers and enforces Hawaii's Charitable Solicitation Law, chapter 467B, Hawaii Revised Statutes, including the registration and bonding of professional solicitors and professional fundraising counsels.

- **Health and Human Services Division:** This division furnishes legal services to the Department of Health and the Department of Human Services except for Family Court matters.
- **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.
- **Education Division:** This division provides legal services to the Board of Education, state educational institutions, the Department of Education, and the Department of Health as it relates to *Felix* matters, Office Of Elections, Campaign Spending Commission, Judiciary, Research Corporation of the University of Hawaii, as well as the Legislature.
- **Public Safety, Hawaiian Homelands and Housing Division:** This division provides legal services to the Department of Public Safety (except for civil litigation matters), the Department of Hawaiian Home Lands, and the Hawaii Community Development Corporation of Hawaii.
- **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.

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	\$ 30,182,199	\$ 10,750,484	\$ 7,678,390
Differences - budget to GAAP:			
The fund (balance) deficit at the beginning of the year affects budgetary resources but not revenues for financial reporting purposes	-	1,056,697	491,983
Revenues for financial reporting purposes which are not budgetary resources	5,294,600	113,142	1,861,349
Budgetary resources not revenues for financial reporting purposes	(7,815,386)		
Adjustments for prior receivables for financial reporting purposes which are not budgetary resources	-	-	(311,992)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 27,661,413</u>	<u>\$ 11,920,323</u>	<u>\$ 9,719,730</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	\$ 29,906,163	\$ 13,649,058	\$ 8,369,536
Differences - budget to GAAP:			
Reserve for encumbrances at year-end are outflows for budgetary resources but are not expenditures for financial reporting purposes	(1,467,552)	(1,745,472)	-
Adjustments for accrued expenses which are not outflows of budgetary resources but are expenditures for financial reporting purposes	(1,637,449)	(361,580)	(171,363)
Other expenditures for financial reporting purposes which are not outflows of budgetary	-	(323,777)	3,320,484
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 26,801,162</u>	<u>\$ 11,218,229</u>	<u>\$ 11,518,657</u>

Interfund Transactions

As of June 30, 2005, 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, 2005, the carrying amount of this account was \$4,449,298 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, 2005, the carrying amount of this TANF bank account was \$2,567,669.

4. Capital Assets And Depreciation

Capital assets activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Buildings and improvements				
Cost	\$ 9,117,450	\$ -	\$ -	\$ 9,117,450
Accumulated depreciation	(4,882,868)	(295,957)	-	(5,178,825)
Building and improvements - net	<u>\$ 4,234,582</u>	<u>\$ (295,957)</u>	<u>\$ -</u>	<u>\$ 3,938,625</u>
Office furniture and equipment				
Cost	\$ 1,013,961	\$ 187,095	\$ (26,880)	\$ 1,174,176
Accumulated depreciation	(724,098)	(91,488)	26,880	(788,706)
Office furniture and equipment - net	<u>\$ 289,863</u>	<u>\$ 95,607</u>	<u>\$ -</u>	<u>\$ 385,470</u>
Capital assets - net	<u>\$ 4,524,445</u>	<u>\$ (200,350)</u>	<u>\$ -</u>	<u>\$ 4,324,095</u>

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

Governmental activities:	
General administration and legal services	\$ 189,306
Drug control and crime prevention	111,892
Criminal history and state identification	70,651
Child support enforcement	15,596
Total governmental activities depreciation expense	<u>\$ 387,445</u>

5. Accrued Vacation

For the year ended June 30, 2005, changes in accrued vacation, were as follows:

Balance at July 1, 2004	\$ 4,485,479
Net increase	<u>336,277</u>
Balance at June 30, 2005	<u>\$ 4,821,756</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 \$5,293,000 for the year ended June 30, 2005, 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 \$4,480,000 for the fiscal year ended June 30, 2005.

8. Lease Commitments

The AG leases office facilities and computer 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 2010:

Year ending June 30,	
2006	\$ 216,000
2007	125,000
2008	65,000
2009	43,000
2010	25,000
	<u>\$ 474,000</u>

Total rent expense for the fiscal year ended June 30, 2005, including rent paid to the State of Hawaii for office space in the Kapolei State Office Building, was approximately \$875,000.

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 option. In 1984, legislation was enacted to add a new noncontributory option 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 option. The noncontributory option 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 option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Both options 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.

Funding Policy - Most covered employees of the contributory option 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. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 27 years from June 30, 2002.

The State's contribution requirements as of June 30, 2005, 2004, and 2003 were approximately \$251,685,000, \$181,614,000, and \$158,622,000, respectively. The State contributed 100% of its required contribution for those years. Act 233, Session Laws of Hawaii 2002, increased the 2003 contribution by providing a one-time lump-sum pensioner bonus to retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also, Act 284, Session Laws of Hawaii 2001, provided an increase in pension benefits effective 2003 to retirees with military service. Covered payroll for the fiscal year ended June 30, 2005 was approximately \$2,079,054,000.

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 25,000 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. During

fiscal 2005, expenditures of \$177,691,000 were recognized for post-retirement health care and life insurance benefits, approximately \$35,876,000 of which is attributable to the State's Component Units.

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 expense for post-retirement benefits for the year ended June 30, 2005 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 post-retirement health insurance benefits expense for the fiscal year ended June 30, 2005 was approximately \$776,000 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 \$250,000 per occurrence. The deductible for windstorm coverage is 3% of loss subject to a \$250,000 minimum. The limit of loss per occurrence is \$100,000,000, except for flood and earthquake which is \$25,000,000. This policy also includes terrorism coverage whose limit of loss per occurrence is \$50,000,000 with a deductible of \$250,000 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 not 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 automobile and public errors and omissions, insurance policy in force with a \$3,000,000 deductible 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, 2005 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, 2005, 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, 2005.

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, 2005 approximated \$13,271,000.

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. Deferred Revenues

The CSEA receives child support payments on behalf of custodial parents receiving financial aid under the TANF program from the State Department of Human Services. Under PRWORA, CSEA is entitled to retain a percentage of the collections to fund its operations. The deferred revenues of \$781,881 represents CSEA's unspent collections as of June 30, 2005.

15. Allowance Of Non-Title IV-D Program Expenses

Prior to October 1998, non-title IV-D expenses, or non-program expenses, of CSEA were not subject to federal reimbursement. With the enactment of PRWORA, October 1, 1998 became the effective date for states to meet certain requirements in regards to the State Case Registry (Registry) and State Disbursement Unit (SDU). Accordingly, retroactive to that date, administrative expenses related to the processing of non-Title IV-D cases through the Registry and SDU were includible as costs claimed for federal funding. CSEA had met such requirements in regards to its Registry and SDU as of the required date.

16. Automated Child Support Enforcement System

In July 1998, the AG placed its new automated Child Support Enforcement System (KEIKI) into service. In February 2003, the AG's KEIKI was granted a full certification by the U.S. DHHS for meeting all the requirements of PRWORA.

17. 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, 2005, and have issued our report thereon dated December 1, 2005. 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

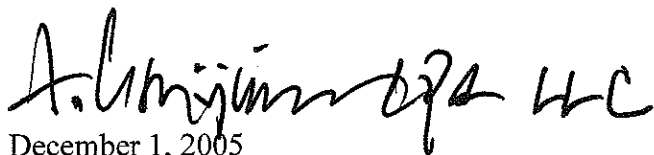
As part of obtaining reasonable assurance about whether the AG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter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

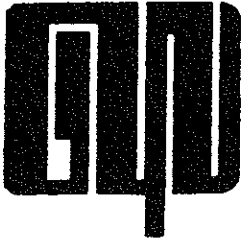
Internal Control Over Financial Reporting

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. Chojima
December 1, 2005



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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, 2005. 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, 2005.

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 "J. L. Martin, CPA, LLC". The signature is written in a cursive, flowing style.

December 1, 2005

**Department of the Attorney General
State of Hawaii
Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2005**

<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>			
Safe Havens: Supervised Visitation and Safe Exchange Grant Program	16.527	2003-CW-BX-0019	\$ 371,153
FY2004 OJJDP Congressional Earmark Program	16.541	2004-JL-FX-K016	235,401
Hawaii ICAC Task Force	16.543	2000-MC-CX-K101	228,960
Hawaii State Justice Statistics Program for Statistical Analysis	16.550	2002-BJ-CX-K006	24,784
Hawaii National Criminal History Improvement	16.554	2000-RG-CX-K011	151,755
FY 2002 Paul Coverdale National Forensic Sciences Improvement Act	16.56	2003-DN-BX-0015	55
Crime Victim Assistance (VOCA)	16.575	2001-VA-GX-0015	517,824
		2002-VA-GX-0015	1,535,937
		2003-VA-GX-0021	-
		2004-VA-GX-0051	-
		2005-VA-GX-0046	-
			2,053,761
Byrne Formula Grant Program (Drug Control and Systems Improvement)	16.579	2001-DB-BX-0015	218,577
		2002-DB-BX-0015	641,004
		2003-DB-BX-0027	755,065
		2004-DB-BX-0038	259,857
			1,874,504
STOP Violence Against Women Formula Grant	16.588	2001-WF-BX-0026	46,159
		2002-WF-BX-0041	457,266
		2003-WF-BX-0218	244,537
		2004-WF-AX-0036	-
			747,963
Rural Domestic Violence & Child Victim Program	16.589	1999-WR-VX-0060	6,446
		1997WR-VX-0027	8,045
		1999-WR-VX-0060	266,216
		2002-WR-BX-0005	64,833
		2004-WR-AX-0044	4,182
			349,721
Grants to Encourage Arrest Policies	16.59	2002-WE-BX-0049	511
		2002-WE-BX-0049	38,977
		2003-WE-BX-0020	257,507
			296,994

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, 2005**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Hawaii Residential Substance Abuse Treatment	16.593	2000-RT-VX-0039	6,288
		2001-RT-BX-0037	343,507
		2002-RT-BX-0018	13,823
		2003-RT-BX-0006	-
			<u>363,618</u>
Project Safe Neighborhoods Research Partner/ Crime Analyst Program	16.609	2003-GP-CX-0039	<u>26,468</u>
HI National Incident-Based Reporting	16.733	2001-RG-CX-K011	<u>370,275</u>
Total U.S. Department of Justice			<u>7,095,412</u>
<u>U.S. Department of Health and Human Services</u>			
Child Support Enforcement (Title IV-D)	93.563	G-04-04-HI-4004	621,980
		G-05-04-HI-4004	9,571,781
			<u>10,193,761</u>
State Medicaid Fraud Control Units	93.775	01-0401-HI-5050	343,443
		01-0501-HI-5050	663,055
			<u>1,006,498</u>
Total U.S. Department of Health and Human Services			<u>11,200,259</u>
Total Expenditures of Federal Awards			<u><u>\$ 18,295,671</u></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, 2005

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
Safe Havens: Supervised Visitation and Safe Exchange Grant Program	16.527	\$ 371,153
Paul Coverdale National Forensic Sciences Improvement Act	16.560	55
Crime Victim Assistance (VOCA)	16.575	2,000,141
Byrne Formula Grant Program (Drug Control and System Improvement)	16.579	1,874,543
STOP Violence Against Women Formula Grants	16.588	707,413
Rural Domestic Violence & Child Victim Program	16.589	345,540
Grants to Encourage Arrest Policies	16.59	257,507
Hawaii Residential Substance Abuse Treatment	16.593	356,195
HI National Incident-Based Reporting	16.733	370,275
		<u>\$ 6,282,822</u>

3. Federal Share of TANF Collections Expended

Expenditures reported under the U.S. DHHS Child Support Enforcement (CFDA No. 93.563) grant award includes only expenditures directly charged to the grant. It does not include the AG's expenditures of its net federal share of child support collections received on behalf of recipients who receive financial aid from the State's Title IV-A agency. The net federal share of collections expended amounted to \$5,581,649 which would result in an adjusted "Total Federal Expenditures" of \$ 23,877,320.

State of Hawaii
Department of the Attorney General
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

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>
16.575	Crime Victim Assistance (VOCA)
16.579	Bryne Formula Grant Program
16.588	STOP Violence Against Women Formula Grants
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, 2005

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, 2005

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, 2005

Section IV - Prior Year Audit Findings

Ref. No.	Recommendation	Status
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FINANCIAL STATEMENT FINDINGS

04-1	Reconcile Child Support Enforcement Agency bank accounts to the child support subsidiary ledgers
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Continue to perform reconciliations on a quarterly basis. Estimate the necessary resources needed to completely resolve all identified differences and determine the most feasible plan to eliminate this condition in the future.

Issue is resolved as corrective action has been taken.

03-1	Reconcile Amounts Claimed on Form OCSE-396A to Federal Funds Drawn
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CSEA should claim reimbursement for the indirect costs and KOMAND billings on a timely basis. Also, although time limits apply to a State agency's claims for reimbursements, CSEA should resolve with the grantor agency the matter regarding the accumulated unreimbursed indirect costs.

Issue is resolved as corrective action has been taken.

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section IV - Prior Year Audit Findings

Ref. No.	Recommendation	Status
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FEDERAL AWARDS FINDINGS

03-02 Improve Controls Over Federal Report Preparation

So that the proper information is reported on Form OCSE-34A, the CSEA should:

- Continue efforts to reconcile amounts reported on OCSE-34A to the bank statement to ensure that KEIKI is providing accurate child support collection information.
- Rely only on current and reconciled supporting records to improve the reliability of the information provided on Form OCSE-34A.

Issue is resolved as corrective action has been taken.