

# **Department of Public Safety, State of Hawaii**

Financial Statements

Fiscal Year Ended June 30, 2005



February 15, 2006

Mr. Frank J. Lopez  
Interim Director  
Department of Public Safety  
State of Hawaii

Dear Mr. Lopez:

This is our report on the financial audit of the Department of Public Safety of the State of Hawaii (PSD) as of and for the fiscal year ended June 30, 2005. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, Government Auditing Standards, *Audits of States, Local Governments, and Non-Profit Organizations*.

#### **OBJECTIVES OF THE AUDIT**

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the PSD's basic financial statements as of and for the fiscal year ended June 30, 2005, and to comply with the requirements of OMB Circular A-133. The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the PSD's basic financial statements.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the PSD is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To determine whether the PSD has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
4. To determine whether the PSD has complied with the laws and regulations that may have a material effect on the basic financial statements and on its major federal financial assistance programs.

## SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the PSD for the fiscal year ended June 30, 2005.

## ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes of the PSD as of and for the fiscal year ended June 30, 2005, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and compliance.
- Part III – Our report on compliance with requirements applicable to each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs.
- Part V – The summary schedule of prior audit findings.
- Part VI – Response of the affected agency.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the PSD.

Sincerely,



Wilcox Choy  
Partner

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**PART I**  
**FINANCIAL SECTION**



## Independent Auditors' Report

To the Director  
Department of Public Safety  
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Public Safety of the State of Hawaii (PSD), as of and for the fiscal year ended June 30, 2005, which collectively comprise the PSD's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the PSD'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 opinions.

As discussed in Note 1, the financial statements of the PSD are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the PSD. 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 its financial position and its cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the PSD, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2006, on our consideration of the PSD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe 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.

The Management's Discussion and Analysis on pages 8 through 17 is not a required part of the basic financial statements but is supplementary information required by GAAP. 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 opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the PSD'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 stated, in all material respects, in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii  
February 15, 2006

**Department of Public Safety  
State of Hawaii**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

The Management's Discussion and Analysis (MD&A) offers readers of the PSD's basic financial statements a narrative overview and analysis of the PSD's financial activities for the fiscal year ended June 30, 2005 (FY 2005). We encourage readers to consider the information presented here in conjunction with the basic financial statements and notes to the basic financial statements.

**FINANCIAL HIGHLIGHTS**

- Total assets of the PSD exceeded its total liabilities at June 30, 2005 by approximately \$87.3 million. Net assets invested in capital assets accounted for nearly this entire amount.
- During the FY 2005, the PSD incurred approximately \$213.5 million in expenses of which approximately \$199.1 million was funded by general fund revenues.
- The PSD expended approximately \$178 million in governmental funds for incarceration and related inmate programs.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A serves as an introduction to the PSD's basic financial statements. The basic financial statements comprise three parts: (1) government-wide financial statements, (2) fund financial statements, and 3) notes to the financial statements.

**Government-wide Financial Statements**

The government-wide financial statements report information about the PSD as a whole using the economic resources measurement focus and accrual basis of accounting, which is similar to the approach used by private-sector companies. The financial statements provide both long-term and short-term information about the PSD's overall financial status. The Statement of Net Assets includes all of the PSD's assets and liabilities. All of the current fiscal year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements report the PSD's net assets and how they have changed. Over time, increases or decreases in the PSD's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

Both statements distinguish between the governmental and business-type activities of the PSD as follows:

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

**Governmental activities** – reflect the PSD's basic services including confinement (incarceration of law offenders), law enforcement, parole, crime victim compensation, and general support (administration). Allotments from the State of Hawaii (State) and federal grants finance most of these activities.

**Business-type activities** – reflect the business-type operations of the Correctional Industries, which charges fees for goods and services that cover its operating costs including depreciation.

### **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 PSD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the PSD are divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental funds are used to account for most, if not all, of a government entity's tax-supported activities. Proprietary funds are used to account for a government entity's business-type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary funds are used to account for resources that are held by a government entity as a trustee or agent for parties outside of the government entity. The resources of fiduciary funds cannot be used to support the government entity's own programs.

The fund financial statements of the PSD include the following types of 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 current sources and uses of spendable resources and balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

By comparing the governmental fund and government-wide financial statements, readers may better understand the long-term impact of the entity's near-term financing decisions. In order to facilitate a comparison between the governmental fund and government-wide financial statements, reconciliation between the two is provided following the governmental fund financial statements.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

**Proprietary funds** – Proprietary funds are used to account for the same functions reported as business-type activities in the government-wide financial statements; however, the fund financial statements report in more detail and with additional information such as cash flows. As in the government-wide financial statements, the accrual basis of accounting is applied to the proprietary funds. There are two types of proprietary funds.

**Enterprise funds** - are used to report activity for which a fee is charged to external users for goods or services. The PSD uses an enterprise fund to account for its Correctional Industries operations.

**Internal service funds** - the second type of proprietary fund is used to report activity that provides goods or services to other funds, departments, agencies, or other governments on a cost-reimbursement basis in which the reporting government entity is the predominant participant in the activity. The PSD currently does not have any funds classified as internal service funds.

**Fiduciary funds** – Fiduciary funds are used to account for assets held in a trustee or agency capacity. The PSD, as a fiduciary, temporarily holds monies for prison and jail inmates, monies for law enforcement-related equipment purchases for the State and counties of Hawaii under a federal program, and repayments by employees for salaries overpaid by the State. These activities are excluded from the PSD's government-wide financial statements because the PSD cannot use these assets to finance its operations.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The following table presents a condensed government-wide Statement of Net Assets of the PSD as of June 30, 2004 and June 30, 2005.

**CONDENSED STATEMENT OF NET ASSETS**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>TOTAL</u>	
	<u>2005</u>	<u>2004</u> <u>(As Restated)</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u> <u>(As Restated)</u>
Current and Other Assets	\$23,446,891	\$22,316,058	\$1,108,190	\$856,733	\$24,555,081	\$23,172,791
Capital Assets	89,920,315	95,677,285	1,832,385	2,011,512	91,752,700	97,688,797
Total Assets	\$113,367,206	\$117,993,343	\$2,940,575	\$2,868,245	\$116,307,781	\$120,861,588
Current Liabilities	\$19,794,794	\$21,486,154	\$557,217	\$555,526	\$20,352,011	\$22,041,680
Other Liabilities	8,587,080	9,696,341	107,899	152,556	8,694,979	9,848,897
Total Liabilities	\$28,381,874	\$31,182,495	\$665,116	\$708,082	\$29,046,990	\$31,890,577
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$89,920,315	\$95,677,285	\$1,814,854	\$1,980,895	\$91,735,169	\$97,658,180
Unrestricted (Deficit)	(4,934,983)	(8,866,437)	460,605	179,268	(4,474,378)	(8,687,169)
<b>TOTAL NET ASSETS</b>	<b>\$84,985,332</b>	<b>\$86,810,848</b>	<b>\$2,275,459</b>	<b>\$2,160,163</b>	<b>\$87,260,791</b>	<b>\$88,971,011</b>

The PSD's combined total net assets decreased by 1.9% from \$89.0 million as of June 30, 2004 to \$87.3 million as of June 30, 2005. Governmental net assets accounted for 97% of total net assets that consisted primarily of buildings and building improvements at the correctional facilities.

The deficit in unrestricted net assets for governmental activities was approximately \$4.9 million and \$8.9 million as of June 30, 2005 and June 30, 2004, respectively. This deficit in unrestricted net assets results primarily from program liabilities incurred as of June 30, 2005 for which State-allotted appropriations were not yet available. The largest liability stems from accrued wages payable totaling \$7.6 million and \$9.4 million as of June 30, 2005 and June 30, 2004, respectively, as a result of the State's statutory payroll lag and after-the-fact payroll.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

**CONDENSED CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>TOTAL</u>	
	<u>2005</u>	<u>2004</u> <u>(As Restated)</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u> <u>(As Restated)</u>
	REVENUES:					
Program Revenues	\$9,154,416	\$7,660,527	\$4,929,550 <sup>1</sup>	\$3,640,335	\$14,083,966	\$11,300,862
General Revenues	199,129,293	186,426,419	-	-	199,129,293	186,426,419
Total Revenues	\$208,283,709	\$194,086,946	\$4,929,550 <sup>1</sup>	\$3,640,335	\$213,213,259	\$197,727,281
EXPENSES:						
Confinement	\$178,019,384	\$162,380,749	\$ -	\$ -	\$178,019,384	\$162,380,749
Law Enforcement	17,718,973	17,291,097	-	-	17,718,973	17,291,097
Parole	3,242,989	2,691,989	-	-	3,242,989	2,691,989
Crime Victim Comp	1,317,625	1,274,812	-	-	1,317,625	1,274,812
General Support	8,384,791	12,136,196	-	-	8,384,791	12,136,196
Correctional Industries	-	-	4,814,254 <sup>1</sup>	3,600,546	4,814,254	3,600,546
Total Expenses	\$208,683,762	\$195,774,843	\$4,814,254 <sup>1</sup>	\$3,600,546	\$213,498,016	\$199,375,389
Excess (Deficiency) Before Transfers, Lapsed Appropriations, and Contributions	(\$400,053)	(\$1,687,897)	\$115,296	\$39,789	(\$284,757)	(\$1,648,108)
Transfer-Out	(3,509)	(332,750)	-	-	(3,509)	(332,750)
Lapsed Appropriations	(1,421,954)	(3,692,951)	-	-	(1,421,954)	(3,692,951)
Contributions	-	-	-	5,000	-	5,000
Change in Net Assets	(\$1,825,516)	(\$5,713,598)	\$115,296	\$44,789	(\$1,710,220)	(\$5,668,809)

Total net assets decreased by approximately \$1.7 million during the FY 2005 as shown above.

Total revenues for PSD increased by \$15.5 million. The revenue increase is attributed primarily to:

- Funding augmentation to cover collective bargaining costs (\$6.6 million).
- Increasing inmate health care costs and corresponding Medicaid reimbursements (\$3 million).
- Increased appropriations for contracting mainland prison bed space (\$5.7 million).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

Expenses for the fiscal years ended June 30, 2005 and June 30, 2004 totaled approximately \$213.5 million and \$199.1 million, respectively. The \$14 million increase primarily stems from increases in collective bargaining costs, inmate health care costs, and mainland prison expenses.

**Governmental Activities**

Governmental activities accounted for over 98% of total expenses in each fiscal year, with program expenses for the confinement of inmates accounting for approximately 85% of total expenses for governmental activities. Approximately \$31 million and \$29 million was expended for the housing and care of inmates in the Federal Detention Center and in out-of-State correctional facilities for the fiscal years ended June 30, 2005 and June 30, 2004, respectively.

**Business-Type Activities**

Total operating revenue for Correctional Industries (CI) increased by \$1.3 million in FY 2005. Sales and Services increased by \$1.3 million. Operating expenses increased by \$1.2 million in FY 2005. As shown in the Condensed Changes in Net Assets, CI's expenses increased by 34%, from \$3.6 million in FY 2004 to \$4.8 in FY 2005. At the same time, revenues increased by 36%, from \$3.6 in FY 2004 to \$4.9 in FY 2005. A net profit of \$115,296 was recorded for FY 2005.

**FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS**

As noted earlier, the PSD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Following are financial analyses of the PSD's governmental and proprietary funds.

**Governmental Funds**

The PSD's principal funding source is the general fund, which accounted for approximately \$20 million or 86% of total governmental fund assets as of June 30, 2005; and \$19 million or 87% of total governmental fund assets for the fiscal year ended June 30, 2004. The general fund revenues consisted primarily of State-allotted appropriations.

**Proprietary Fund**

The Correctional Industries Revolving Fund is the PSD's only proprietary fund. As of June 30, 2005, the Correctional Industries reported over \$2.2 million in total net assets, of which approximately \$1.8 million was accounted for by investment in capital assets, net of related debt.

**Department of Public Safety  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

The \$1.3 million increase in sales and services resulted in a \$1.2 million increase in operating expenses, yielding a profit of \$115,296 for FY 2005.

**BUDGETARY ANALYSIS**

As of May 2004, the Council on Revenues retained its previous forecast of moderate general fund tax revenue growth for FY 2004 and thereafter. However, the State general fund's annual budget had not been in balance since FY 2002. That is, general fund expenditures were greater than general fund revenues, resulting in annual deficits that continued to erode the State's once-prudent balance in the general fund.

Therefore, the FY 2005 budget execution policies were formulated under the following overall themes:

- Actions to reduce overall spending in FY 2005 were deemed a necessary first step in addressing the structural imbalance in the budget. State agencies were cautioned to expect further spending reductions for the upcoming fiscal biennium 2005-2007 as the State developed a plan to bring recurring expenses to a level that could be supported by recurring revenues.
- Utmost care and prudence must be taken in all expenditure and hiring decisions as every expenditure must compete for its priority in the State spending plan relative to all other funding requirements of the State.

Accordingly, the following measures were imposed in FY 2005:

- A 1% across-the-board efficiency savings restriction on the full-year FY 2005 departmental allocation.
- Targeted restrictions on specific items or categories.
- As in the past, allotment of only 90% of general fund collective bargaining appropriations.
- Unless specifically addressed, all other provisions of the FY 2004 Budget Execution Policies and Instructions continued to be in force.

**Department of Public Safety  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

**GENERAL FUND BUDGETARY COMPARISON**

<u>Program</u>	<u>Original Enc. &amp; Exp.</u>	<u>Final Enc. &amp; Exp.</u>	<u>Actual on Budgetary Basis Enc. &amp; Exp.</u>	<u>Variance Favorable (Unfavorable)</u>
Confinement	\$137,977,420	\$144,380,878	\$144,275,102	\$105,776
Law Enforcement	14,911,838	15,663,578	13,912,691	1,750,887
Parole	3,311,755	3,207,556	2,866,356	341,200
General Support	<u>10,296,204</u>	<u>10,296,204</u>	<u>9,200,306</u>	<u>1,095,898</u>
TOTAL EXPENDITURES	<u>\$166,497,217</u>	<u>\$173,548,216</u>	<u>\$170,254,455</u>	<u>\$3,293,761</u>

**GENERAL FUND BUDGETARY COMPARISON**

The final total budget of \$173.5 million reflects an expenditure ceiling. Generally, expenditure ceilings are formulated based on anticipated program needs. Optimally, expenditure ceilings should be close or equal to actual expenditures. However, actual expenditures are limited to the availability of funds. Therefore, the PSD is limited to spending up to the expenditure ceiling or the cash balance, whichever amount is lower. For the FY 2005, the \$3 million variance between the final budget and actual expenditures on a budgetary basis is attributed to a combination of the following factors:

- The overall cash balance was less than the expenditure ceiling.
- The PSD experienced personnel recruitment and retention difficulties in certain areas.
- Certain programs were able to reduce overtime payroll expenditures.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

**CAPITAL ASSETS, NET OF DEPRECIATION**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>TOTAL</u>	
	<u>2005</u>	<u>2004</u> <u>(As Restated)</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u> <u>(As Restated)</u>
Land	\$107,570	\$107,570	\$ -	\$ -	\$107,570	\$107,570
Buildings and Improvements	86,987,756	92,752,481	1,740,825	1,805,300	88,728,581	94,557,781
Furniture, Equipment, Vehicles, and Land Improvements	2,824,989	2,817,234	91,560	206,212	2,916,549	3,023,446
<b>TOTAL</b>	<b>\$89,920,315</b>	<b>\$95,677,285</b>	<b>\$1,832,385</b>	<b>\$2,011,512</b>	<b>\$91,752,700</b>	<b>\$97,688,797</b>

**CAPITAL ASSETS**

As of June 30, 2005, the PSD had \$91.8 million invested in capital assets. Capital assets for governmental activities accounted for 98% of total capital assets. Building and building improvements at correctional facilities totaled approximately \$87 million, net of accumulated depreciation.

Capital assets increased by \$0.7 million or 0.7% net of depreciation, from June 30, 2004 to June 30, 2005.

**ECONOMIC FACTORS**

As discussed previously in the budgetary analysis section, at the beginning of FY 2005, the following measures were imposed:

- A 1% across-the-board efficiency savings restriction on the full-year FY 2005 departmental allocation.
- Targeted restrictions on specific items or categories.
- As in the past, allotment of only 90% of general fund collective bargaining appropriations.
- Unless specifically addressed, all other provisions of the FY 2004 Budget Execution Policies and Instructions remained in force.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2005 (UNAUDITED)**

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the PSD's finances and to demonstrate the PSD's accountability for the funds it receives. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed in writing to the following:

Office of the Deputy Director for Administration  
Department of Public Safety  
State of Hawaii  
919 Ala Moana Boulevard, Suite 400  
Honolulu, Hawaii 96814

## Department of Public Safety, State of Hawaii

Statement of Net Assets  
June 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Current Assets:			
Cash and cash equivalents	\$ 21,397,926	\$ 296,376	\$ 21,694,302
Receivables, net	151,794	178,570	330,364
Due from State of Hawaii	2,044,044	-	2,044,044
Internal balances	(185,187)	185,187	-
Due from other funds	38,314	-	38,314
Inventories	-	448,057	448,057
Total current assets	<u>23,446,891</u>	<u>1,108,190</u>	<u>24,555,081</u>
Capital Assets:			
Non-depreciable	107,570	-	107,570
Depreciable, net	89,812,745	1,832,385	91,645,130
Total capital assets	<u>89,920,315</u>	<u>1,832,385</u>	<u>91,752,700</u>
Total assets	<u>113,367,206</u>	<u>2,940,575</u>	<u>116,307,781</u>
<b><u>Liabilities</u></b>			
Current Liabilities:			
Accrued wages and employee benefits payable	7,626,672	49,657	7,676,329
Vouchers payable	6,511,317	405,698	6,917,015
Deferred revenues	91,663	18,980	110,643
Capital lease obligations	-	14,277	14,277
Accrued compensated absences	5,499,153	67,013	5,566,166
Due to other funds	65,989	1,592	67,581
Total current liabilities	<u>19,794,794</u>	<u>557,217</u>	<u>20,352,011</u>
Capital Lease Obligations	-	3,254	3,254
Accrued Compensated Absences	8,587,080	104,645	8,691,725
Total liabilities	<u>28,381,874</u>	<u>665,116</u>	<u>29,046,990</u>
<b><u>Net Assets</u></b>			
Invested in Capital Assets, net of related debt	89,920,315	1,814,854	91,735,169
Unrestricted (deficit)	(4,934,983)	460,605	(4,474,378)
Total net assets	<u>\$ 84,985,332</u>	<u>\$ 2,275,459</u>	<u>\$ 87,260,791</u>

See accompanying notes to the basic financial statements.

## Department of Public Safety, State of Hawaii

Statement of Activities

For the Fiscal Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>						
Confinement	\$ 178,019,384	\$ 297,345	\$ 1,992,064	\$ (175,729,975)	\$ -	\$ (175,729,975)
Law enforcement	17,718,973	4,735,489	689,180	(12,294,304)	-	(12,294,304)
Parole	3,242,989	-	-	(3,242,989)	-	(3,242,989)
Crime victim compensation	1,317,625	939,354	500,984	122,713	-	122,713
General support	8,384,791	-	-	(8,384,791)	-	(8,384,791)
Total governmental activities	<u>208,683,762</u>	<u>5,972,188</u>	<u>3,182,228</u>	<u>(199,529,346)</u>	<u>-</u>	<u>(199,529,346)</u>
<b>Business-type Activities --</b>						
Correctional industries	4,814,254	4,929,550	-	-	115,296	115,296
Total business-type activities	<u>4,814,254</u>	<u>4,929,550</u>	<u>-</u>	<u>-</u>	<u>115,296</u>	<u>115,296</u>
Total	<u>\$ 213,498,016</u>	<u>\$ 10,901,738</u>	<u>\$ 3,182,228</u>	<u>(199,529,346)</u>	<u>115,296</u>	<u>(199,414,050)</u>
<b>General revenues:</b>						
State appropriations				166,862,311	-	166,862,311
State-provided payroll fringe benefits				32,224,817	-	32,224,817
Unrestricted investment earnings				5,242	-	5,242
Miscellaneous				36,923	-	36,923
Lapsed appropriations				(1,421,954)	-	(1,421,954)
Transfers, net				(3,509)	-	(3,509)
Total general revenues and transfers				<u>197,703,830</u>	<u>-</u>	<u>197,703,830</u>
Changes in net assets				(1,825,516)	115,296	(1,710,220)
Net assets at July 1, 2004, as restated (see Note 3)				86,810,848	2,160,163	88,971,011
Net assets at June 30, 2005				<u>\$ 84,985,332</u>	<u>\$ 2,275,459</u>	<u>\$ 87,260,791</u>

See accompanying notes to the basic financial statements.

## Department of Public Safety, State of Hawaii

Governmental Funds

Balance Sheet

June 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and Cash Equivalents	\$ 18,080,967	\$ 3,316,959	\$ 21,397,926
Receivables, net	151,794	-	151,794
Due from State of Hawaii	2,044,044	-	2,044,044
Due from Other Funds	56,202	5,753	61,955
Total assets	<u>\$ 20,333,007</u>	<u>\$ 3,322,712</u>	<u>\$ 23,655,719</u>
<b><u>Liabilities and Fund Balances</u></b>			
Accrued Wages and Employee Benefits Payable	\$ 7,585,008	\$ 41,664	\$ 7,626,672
Vouchers Payable	6,306,564	204,753	6,511,317
Deferred Revenues	-	91,663	91,663
Due to Other Funds	253,271	21,546	274,817
Total liabilities	<u>14,144,843</u>	<u>359,626</u>	<u>14,504,469</u>
Fund Balances:			
Reserved for:			
Encumbrances	9,430,783	1,829,120	11,259,903
Receivables	151,794	-	151,794
Unreserved	<u>(3,394,413)</u>	<u>1,133,966</u>	<u>(2,260,447)</u>
Total fund balances	<u>6,188,164</u>	<u>2,963,086</u>	<u>9,151,250</u>
Total liabilities and fund balances	<u>\$ 20,333,007</u>	<u>\$ 3,322,712</u>	<u>\$ 23,655,719</u>

See accompanying notes to the basic financial statements.

## Department of Public Safety, State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2005

<b>Total Fund Balances, Governmental Funds</b>		<b>\$ 9,151,250</b>
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. These assets consist of:		
Governmental capital assets	\$ 185,655,768	
Less accumulated depreciation	<u>(95,735,453)</u>	
		89,920,315
Accrued compensated absences liability is not due in the current period and therefore is not reported in the governmental funds		<u>(14,086,233)</u>
Net Assets of Governmental Activities		<u><u>\$ 84,985,332</u></u>

See accompanying notes to the basic financial statements.

## Department of Public Safety, State of Hawaii

### Governmental Funds

#### Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Revenues:</b>			
State allotted appropriations	\$ 166,862,311	\$ -	\$ 166,862,311
State-provided payroll fringe benefits	32,224,817	-	32,224,817
Operating grants and contributions	-	3,182,228	3,182,228
Charges for services	4,331,059	1,641,129	5,972,188
Unrestricted investment earnings	5,242	-	5,242
Miscellaneous	36,923	-	36,923
Total revenues	<u>203,460,352</u>	<u>4,823,357</u>	<u>208,283,709</u>
<b>Expenditures:</b>			
Confinement	170,983,414	2,407,412	173,390,826
Law enforcement	17,179,249	836,042	18,015,291
Parole	3,188,465	-	3,188,465
Crime victim compensation	-	1,325,668	1,325,668
General support	8,324,254	-	8,324,254
Total expenditures	<u>199,675,382</u>	<u>4,569,122</u>	<u>204,244,504</u>
Excess of revenues over expenditures	<u>3,784,970</u>	<u>254,235</u>	<u>4,039,205</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	571	571
Transfers out	(4,080)	-	(4,080)
Total other financing sources (uses)	<u>(4,080)</u>	<u>571</u>	<u>(3,509)</u>
Excess of revenues over expenditures and other uses	3,780,890	254,806	4,035,696
<b>Other Changes in Fund Balances:</b>			
Lapsed appropriations	(1,421,954)	-	(1,421,954)
Net change in fund balances	2,358,936	254,806	2,613,742
Fund Balance, July 1, 2004	<u>3,829,228</u>	<u>2,708,280</u>	<u>6,537,508</u>
Fund Balance, June 30, 2005	<u>\$ 6,188,164</u>	<u>\$ 2,963,086</u>	<u>\$ 9,151,250</u>

See accompanying notes to the basic financial statements.

## Department of Public Safety, State of Hawaii

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances, total governmental funds		\$ 2,613,742
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	\$ 602,309	
Net transfer of capital assets	8,500	
Less current fiscal year depreciation	<u>(6,353,887)</u>	
		(5,743,078)
Loss on the disposition of capital assets reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.		(13,892)
Change in long-term compensated absences reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.		<u>1,317,712</u>
Change in Net Assets of Governmental Activities		<u><u>\$ (1,825,516)</u></u>

See accompanying notes to the basic financial statements.

## Department of Public Safety, State of Hawaii

General Fund

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2005

	<u>Original</u>	<u>Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Over (Under)</u>
<b>Revenues:</b>				
State allotments	\$ 160,114,506	\$ 166,862,311	\$ 166,862,311	\$ -
Charges for services	6,307,646	6,610,840	4,331,059	(2,279,781)
Miscellaneous	75,065	75,065	37,088	(37,977)
	<u>166,497,217</u>	<u>173,548,216</u>	<u>171,230,458</u>	<u>(2,317,758)</u>
<b>Expenditures:</b>				
Confinement	137,977,420	144,380,878	144,275,102	105,776
Law enforcement	14,911,838	15,663,578	13,912,691	1,750,887
Parole	3,311,755	3,207,556	2,866,356	341,200
General support	10,296,204	10,296,204	9,200,306	1,095,898
	<u>166,497,217</u>	<u>173,548,216</u>	<u>170,254,455</u>	<u>3,293,761</u>
Excess of revenues over expenditures	-	-	976,003	976,003
<b>Other Financing Uses:</b>				
Transfers out	-	-	4,080	4,080
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 971,923</u>	<u>\$ 971,923</u>

See accompanying notes to the basic financial statements.

# Department of Public Safety, State of Hawaii

Proprietary Fund  
Statement of Net Assets  
June 30, 2005

## Assets

### Current Assets:

Cash	\$ 296,376
Receivables, net of allowance for doubtful accounts	178,570
Internal balances	185,187
Inventories	448,057

Total current assets 1,108,190

Capital Assets, net of depreciation 1,832,385

Total assets 2,940,575

## Liabilities

### Current Liabilities:

Accrued wages and employee benefits	49,657
Vouchers payable	405,698
Deferred revenues	18,980
Capital lease obligations	14,277
Accrued compensated absences	67,013
Due to other funds	1,592

Total current liabilities 557,217

### Noncurrent Liabilities:

Capital lease obligations	3,254
Accrued compensated absences	104,645

Total liabilities 665,116

## Net assets

Invested in Capital Assets, net of related debt 1,814,854

Unrestricted 460,605

Total net assets \$ 2,275,459

See accompanying notes to the basic financial statements.

## Department of Public Safety, State of Hawaii

Proprietary Fund

Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2005

Operating Revenues:	
Charges for sales and services	\$ 4,929,550
Less provision for uncollectible accounts	<u>(25,749)</u>
Total operating revenues	<u>4,903,801</u>
Operating Expenses:	
Cost of sales and services	4,580,996
Depreciation and amortization	<u>204,953</u>
Total operating expenses	<u>4,785,949</u>
Operating income	117,852
Non-Operating Expenses:	
Interest expense	<u>(2,556)</u>
Change in net assets	115,296
Net Assets, July 1, 2004	<u>2,160,163</u>
Net Assets, June 30, 2005	<u><u>\$ 2,275,459</u></u>

See accompanying notes to the basic financial statements.

## Department of Public Safety, State of Hawaii

Proprietary Fund

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005

Cash Flows from Operating Activities:	
Receipts from customers	\$ 4,587,145
Receipts from interfund services provided	268,240
Payments to suppliers	(3,871,929)
Payments to employees	(760,101)
	<u>223,355</u>
Net cash provided by operating activities	
Cash Flows from Capital and Related Financing Activities	
Principal payments on capital lease obligations	(38,912)
Interest paid on capital lease obligations	(2,556)
	<u>(41,468)</u>
Net cash used by capital and related financing activities	
	181,887
Net decrease in cash	
	<u>114,489</u>
Cash at July 1, 2004	<u>296,376</u>
Cash at June 30, 2005	<u><u>\$ 296,376</u></u>

### Reconciliation of operating income to net cash flows provided by operating activities

Operating income	\$ 117,852
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	204,953
Provision for uncollectible accounts	25,749
Change in assets and liabilities:	
Receivables	46,952
Inventories	(144,573)
Vouchers payable	(57,115)
Accrued wages and compensated absences	152,865
Deferred revenues	(121,117)
Due to other funds	(2,211)
	<u>(2,211)</u>
Net cash provided by operating activities	<u><u>\$ 223,355</u></u>

See accompanying notes to the basic financial statements.

# Department of Public Safety, State of Hawaii

Agency Fund  
Statement of Assets and Liabilities  
June 30, 2005

	<u>Assets</u>	<u>Agency Fund</u>
Cash		\$ 1,829,117
Due from Others		<u>67,581</u>
Total assets		<u><u>\$ 1,896,698</u></u>
	<u>Liabilities</u>	
Due to Other Funds		\$ 38,314
Due to Individuals		1,161,862
Due to Others		<u>696,522</u>
Total liabilities		<u><u>\$ 1,896,698</u></u>

See accompanying notes to the basic financial statements.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 1. Financial Reporting Entity

Effective July 1, 1990, Act 211, Session Laws of Hawaii (SLH) 1989, established the Department of Public Safety of the State of Hawaii (PSD). This Act transferred to the PSD the administration of the state correctional facilities and related services formerly administered by the State Department of Corrections. This Act also transferred to the PSD on July 1, 1990, all functions and powers to administer the Sheriffs' Office, formerly administered by the State Judiciary, and the Narcotics Enforcement Division, formerly administered by the State Department of the Attorney General.

The PSD is part of the executive branch of the State of Hawaii (State). The PSD's basic financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually which includes the PSD's financial activities.

The accompanying basic financial statements reflect the financial position, results of operations and cash flows of the following divisions of the PSD:

### a. Departmental Administration

Departmental Administration includes management, accounting, data processing and other administrative services provided by the PSD. Also included in Departmental Administration is activity related to certain federal financial assistance programs. Its operations are reported in both the general and special revenue funds.

### b. Law Enforcement

Law Enforcement assists in guarding state property and facility, preserving the peace and protecting the public in designated areas, and serving process papers in civil and criminal proceedings. Included in Law Enforcement are the Protective Services, Narcotics Enforcement and Sheriff Divisions, and the Executive Protective Services. Its operations are reported in both the general and special revenue funds.

### c. Corrections

Administers, through subordinate staff offices and line divisions programs, services and facilities for the detention, custody, care and redirection of persons committed to the control of the department pursuant to law.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 1. Financial Reporting Entity (continued)

### c. Corrections (continued)

#### i. Institutions Division

This division operates the state correctional facilities (prisons), and the state community correctional centers (jails). Its public safety mission includes the confinement, care, supervision, rehabilitation and release of persons committed to those facilities. Its operations are reported in both the general and special revenue funds.

#### ii. Inmate Stores

The inmate stores are operated by the PSD within the state correctional facilities. The PSD contracts with an outside vendor to provide consumer goods for sale to the inmate population. The stores' operations are reported in the general fund.

#### iii. Intake Service Centers Division

This division provides service delivery coordination to the State's criminal justice agencies through intake, assessment, program services and administrative functions. Its operations are reported in both the general and special revenue funds.

#### iv. Corrections Program Services Division

This division develops operational guidelines and standards and provides technical and administrative support and assistance to all correctional institutions for the effective and efficient conduct of programs and services. It also assists in coordinating and maintaining oversight of institutional operations, programs and services. Its operations are reported in both the general and special revenue funds.

#### v. Health Care Division

This division develops and maintains a program of health care services involving both in-house and community resources (public health, contract and volunteer) for all correctional institutions. It also oversees the operation of such services to ensure adherence to contemporary standards and fiscal responsibility, uniformity of quality health care, and integration/coordination among health care providers. Its operations are reported in the general fund.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 1. Financial Reporting Entity (continued)

### c. Corrections (continued)

#### vi. Correctional Industries Division

This division employs inmates who receive employment training and who provide printing, sewing, construction and miscellaneous services to other operations of the PSD, other state agencies, and the private sector. Its operations are reported in the enterprise fund.

### d. Crime Victim Compensation Commission (administratively attached to the PSD)

This commission assists victims of criminal acts by providing compensation to victims or survivors of deceased victims of certain crimes. Its operations are reported in the special revenue funds.

### e. Hawaii Paroling Authority (administratively attached to the PSD)

This authority is a quasi-judicial body which establishes minimum terms of imprisonment, considers requests for parole and provides supervision for those granted parole. Its operations are reported in the general fund.

## 2. Significant Accounting Policies

### a. Basis of Presentation

The government-wide financial statements report all assets, liabilities, and activities of the PSD as a whole. The fiduciary fund is excluded from the government-wide financial statements because the PSD cannot use those assets to finance its operations.

The financial transactions of the PSD are recorded in individual funds that are reported in the fund financial statements and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, net assets, revenues, and expenditures.

The fund financial statements focus on major funds rather than reporting funds by type. Each major fund is reported in separate columns and non-major funds are combined in one column. Major funds are funds which have total assets, liabilities, revenues or expenditures that are at least ten percent of the same element for all funds of its fund type or at least five percent of the same element for all governmental and enterprise funds combined.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 2. Significant Accounting Policies (continued)

### b. Governmental Fund Types

General Fund - The general fund is the general operating fund of the PSD. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

### c. Proprietary Fund Type

Enterprise Fund - The enterprise fund is used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Proprietary fund operating revenues are those that result from providing goods and services. It also includes revenues not related to capital and related financing activities, non-capital financing activities, or investing activities, if any.

### d. Fiduciary Fund Type

Agency Fund - The agency fund is used to account for assets held by the PSD on behalf of outside parties, including other governments, or on behalf of individuals.

### e. Government-Wide Financial Statements

The economic resources measurement focus and accrual basis of accounting is used for reporting the government-wide financial statements. With this measurement focus, all assets and liabilities associated with the operations of the PSD are included in the statement of net assets. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 2. Significant Accounting Policies (continued)

### f. Governmental Funds Financial Statements

All governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they become both measurable and available. Measurable means that the amount of the transaction 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 federal grants and funds appropriated by the State Legislature. Expenditures are generally recorded when the related fund liabilities are incurred.

### g. Proprietary and Agency Funds

All proprietary and agency funds are accounted for on a flow of economic resources measurement focus and accrual basis of accounting. In accordance with standards promulgated by the Governmental Accounting Standards Board, the PSD has elected not to apply the Financial Accounting Standards Board pronouncements on accounting and financial reporting that were issued after November 30, 1989.

The agency fund is purely custodial (assets equal liabilities) and thus does not involve the measurement of results of operations.

### h. Use of Estimates

The preparation of basic 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 expenditures during the reporting period. Actual results could differ from those estimates.

### i. Cash and Cash Equivalents

Cash and cash equivalents, for the purpose of the statement of cash flows, includes all cash and investments with original maturities of three months or less.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 2. Significant Accounting Policies (continued)

### j. Receivables

Receivables in the general fund consist primarily of amounts due from individuals for whom salaries were overpaid by the PSD. Receivables in the enterprise fund consist primarily of amounts due from other state agencies for services provided to those agencies for a fee. The amounts reported as net receivables were established based on management's estimate of amounts collectible.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

### k. Inventories

Inventory of goods, materials and supplies is valued at cost (first-in, first-out method). Inventory in the enterprise fund consists primarily of printing, construction, and sewing supplies to be used in the Correctional Industries Division.

### l. Capital Assets

The accounting treatment over capital assets depends on whether the assets are used in governmental fund or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements. Capital assets used in proprietary fund operations are accounted for on the same basis as in the government-wide financial statements.

Capital assets are valued at cost where historical cost records are available and at estimated historical cost where no records exist. Donated capital assets are valued at their estimated fair value on the date received.

Improvements to capital assets that materially add to the value or extend the life of the assets are capitalized. Other repairs and normal maintenance are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 2. Significant Accounting Policies (continued)

### l. Capital Assets (continued)

The State has adopted the following capitalization policy and depreciation on all assets is provided for on a straight-line basis over the following estimated useful lives:

<u>Asset Type</u>	<u>Minimum Capitalization Amount</u>	<u>Estimated Useful Life</u>	
		<u>Governmental</u>	<u>Proprietary</u>
Land improvements	\$100,000	15 years	Not applicable
Buildings and improvements	\$100,000	30 years	40 years
Furniture and equipment	\$5,000	7 years	5 years
Motor vehicles	\$5,000	5 years	5 years

### m. Due to Individuals

Due to individuals represents assets held by the PSD primarily in an agency capacity for the inmate population.

### n. Accumulated Vacation

Employees are credited with vacation at the rate of up to 168 hours per calendar year, based on seniority. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

### o. Restricted Net Assets

Net assets are restricted when constraints placed on net assets are imposed by grantors, contributors, or laws and regulations of authorizing governments. When both restricted and unrestricted net assets are available, the PSD generally applies unrestricted resources before restricted resources for expenses incurred.

### p. Appropriations

Appropriations represent the authorizations granted by the State Legislature that permit 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.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 2. Significant Accounting Policies (continued)

### q. Program Revenues

Program revenues are derived directly from the programs of the PSD or from parties outside of the PSD and are categorized as charges for services, operating grants and contributions, or capital grants and contributions.

Charges for services - Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Revenues in this category include fees charged for specific services, such as controlled substance registration fees, security service fees and state law and court imposed crime victim compensation fees. Payments from other governments that are exchange transactions are also reported as charges for services.

Operating grants and contributions - Program-specific operating and capital grants and contributions include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Governmental 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.

### r. 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 basic financial statements.

### s. Risk Management

The PSD is exposed to various risks for losses 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 basic financial statements and the amount of the loss is reasonably estimable.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

### 3. Restated Beginning Net Assets

During the current year, the PSD recognized certain assets that were not recorded in the prior year. The recording of these assets resulted in the following adjustments to net assets for the governmental activities at June 30, 2004:

Net assets as of June 30, 2004, as previously reported	\$ 82,456,696
Addition of buildings and improvements, net of accumulated depreciation	<u>4,354,152</u>
Net assets as of June 30, 2004, as restated	<u><u>\$ 86,810,848</u></u>

### 4. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues and budgeted expenditures in the statement of revenue and expenditures - budget and actual - general fund 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 such as those related to the special revenue funds.

For purposes of budgeting, the PSD's budgetary fund structure and accounting principles differ from those utilized to present the governmental fund financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The PSD'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, (2) the recognition of certain receivables, and (3) special revenue fund operating grant accruals and deferrals. These differences represent a departure from GAAP. The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the general fund for the fiscal year ended June 30, 2005:

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Notes to the Basic Financial Statements  
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## 4. Budgeting and Budgetary Control (continued)

Excess of revenues over expenditures and other uses - actual on budgetary basis	\$ 971,923
Reserved for encumbrances at fiscal year-end	9,430,783
Reserved for receivables	151,794
Net change in unreserved liabilities	37,337
Expenditures for liquidation of prior fiscal year encumbrances	(6,816,025)
Net adjustment for commissary revenue accrual	<u>5,078</u>
Excess of revenues over expenditures and other uses - GAAP basis	<u>\$ 3,780,890</u>

## 5. Cash and Cash Equivalents

The State Director of Finance is responsible for safekeeping of all monies paid into the State Treasury (cash pool). The Hawaii Revised Statutes authorize the State Director of Finance to invest in obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. The PSD also maintains cash in banks and time certificates of deposit, which are held separately from cash in the State Treasury. As of June 30, 2005, the carrying amount of total bank deposits including time certificates of deposit was approximately \$1,087,000 and the corresponding bank balances were approximately \$1,220,000. PSD and State deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the PSD's or the State's deposits may not be returned to it. For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60 percent of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
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## 6. Receivables

Receivables of the PSD, net of an allowance for doubtful accounts, consisted of the following at June 30, 2005:

	General Fund	Enterprise Fund
Salary overpayments	\$ 261,794	\$ -
Accounts receivable	-	277,169
Less: allowance for doubtful accounts	(110,000)	(98,599)
Receivables, net	<u>\$ 151,794</u>	<u>\$ 178,570</u>

## 7. Capital Assets

	Balance June 30, 2004 (As restated)	Additions	Deductions	Transfers	Balance June 30, 2005
<b>Governmental activities:</b>					
Nondepreciable assets --					
Land	\$ 107,570	\$ -	\$ -	\$ -	\$ 107,570
Depreciable assets:					
Building and improvements	176,087,416	-	-	-	176,087,416
Furniture and equipment	4,648,238	337,498	51,652	-	4,934,084
Vehicles	3,730,514	264,811	135,674	148,486	4,008,137
Land improvements	1,778,561	-	-	-	1,778,561
Total capital assets	<u>186,352,299</u>	<u>602,309</u>	<u>187,326</u>	<u>148,486</u>	<u>186,915,768</u>
Less accumulated depreciation:					
Building and improvements	83,334,935	5,764,725	-	-	89,099,660
Furniture and equipment	3,654,775	325,794	46,422	-	3,934,147
Vehicles	3,388,877	204,083	127,012	139,986	3,605,934
Land improvements	296,427	59,285	-	-	355,712
Total accumulated depreciation	<u>90,675,014</u>	<u>6,353,887</u>	<u>173,434</u>	<u>139,986</u>	<u>96,995,453</u>
Governmental activities - capital assets, net	<u>\$ 95,677,285</u>	<u>\$ (5,751,578)</u>	<u>\$ 13,892</u>	<u>\$ 8,500</u>	<u>\$ 89,920,315</u>

# Department of Public Safety, State of Hawaii

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

## 7. Capital Assets (continued)

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
<b>Business-type activities:</b>				
Building and improvements	\$ 2,579,000	\$ -	\$ -	\$ 2,579,000
Equipment	730,100	-	-	730,100
Equipment under capital lease	649,758	25,826	-	675,584
Total capital assets	<u>3,958,858</u>	<u>25,826</u>	<u>-</u>	<u>3,984,684</u>
Less accumulated depreciation:				
Building and improvements	773,700	64,475	-	838,175
Equipment	652,882	92,989	-	745,871
Equipment under capital lease	520,764	47,489	-	568,253
Total accumulated depreciation	<u>1,947,346</u>	<u>204,953</u>	<u>-</u>	<u>2,152,299</u>
Business-type activities - capital assets, net	<u>\$ 2,011,512</u>	<u>\$ (179,127)</u>	<u>\$ -</u>	<u>\$ 1,832,385</u>

Depreciation expense was charged to functions as follows:

<b>Governmental activities:</b>	
Confinement	\$ 5,967,629
Law enforcement	99,640
Crime victim compensation	2,313
General support	284,305
Total governmental activities depreciation	<u>\$ 6,353,887</u>
Business-type activities --	
Correctional industries	<u>\$ 204,953</u>