



DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Basic Financial Statements and Single Audit Reports

June 30, 2005

(With Independent Auditors' Report Thereon)

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII

June 30, 2005

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SECTION I

Introduction



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

March 10, 2006

The Director
Department of Labor and Industrial Relations
State of Hawaii:

We have completed our audit of the basic financial statements of the Department of Labor and Industrial Relations, State of Hawaii (the Department), as of and for the year ended June 30, 2005. We have also audited the Department's compliance with requirements applicable to its major federal financial assistance programs. We submit herein our reports on the Department's basic financial statements and federal financial assistance programs.

The objectives and scope of our audit were as follows:

AUDIT OBJECTIVES

1. To provide opinions on the fair presentation of the Department's basic financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2005, in accordance with U.S. generally accepted accounting principles.
2. To consider the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests of the Department's compliance with laws, regulations, contracts, and grants that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the Department'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.
5. To provide an opinion on the Department's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major program.

The Director
Department of Labor and Industrial Relations
State of Hawaii
March 10, 2006

SCOPE OF AUDIT

We performed an audit of the Department's basic financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2005, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

ORGANIZATION OF REPORT

Our report is organized into five sections as follows:

1. Section I, entitled "Introduction" describes the objectives and scope of our audit and the organization and contents of this report.
2. Section II, entitled "Basic Financial Statements" contains the Department's basic financial statements and footnotes for the year ended June 30, 2005, and our report thereon. It also contains management's discussion and analysis on the Department's financial activities for the year ended June 30, 2005.
3. Section III, entitled "Supplementary Information" contains the combining financial statements for the Department's nonmajor governmental funds.
4. Section IV, entitled "Compliance and Internal Control over Financial Reporting" contains our report on the Department's internal control over financial reporting and compliance and other matters based upon our audit of the Department's basic financial statements.
5. Section V, entitled "Compliance and Internal Control over Federal Awards" contains our report on the Department's compliance and internal control over federal awards in accordance with OMB Circular A-133, a schedule of expenditures of federal awards, and a schedule of findings and questioned costs.

We would like to take this opportunity to express our appreciation to the personnel of the Department of Labor and Industrial Relations for the cooperation and assistance extended to us during our audit. We will be pleased to discuss any questions that you or your associates may have regarding our recommendations.

Very truly yours,

KPMG LLP

SECTION II

Basic Financial Statements



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Director
Department of Labor and Industrial Relations
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 Labor and Industrial Relations, State of Hawaii (the Department), as of and for the year ended June 30, 2005, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 Department are intended to present the financial position and the changes in financial position, and, where applicable, cash flows thereof 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 are attributable to the transactions of the Department. 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, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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 of the Department as of June 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and federal fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2006 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 13 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 Department's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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*. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

March 10, 2006

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Management's Discussion and Analysis

Year ended June 30, 2005

As management of the Department of Labor and Industrial Relations, State of Hawaii (the Department), we offer readers of the Department's basic financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2005.

Financial Highlights

- The assets of the Department exceeded its liabilities at June 30, 2005 by \$492.8 million (net assets).
- Of the total net assets, the amount of \$484 million or 98.2% was unrestricted and may be used by the Department for its operations and activities in achieving its goal to ensure and increase the economic security, physical and economic well-being, and productivity of Hawaii's workers.
- The Department's liabilities reported in the statement of net assets decreased during the current fiscal year to \$15.4 million, a decrease of \$326,000 or 2.1% from the prior year.
- At June 30, 2005, the Department reported governmental fund balances of \$16.1 million, an increase of \$968,000 or 6.4% from the prior fiscal year.

Overview of the Basic Financial Statements

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

Department-Wide Financial Statements

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

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

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

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Management's Discussion and Analysis

Year ended June 30, 2005

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 Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Department can be divided into three categories: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the department-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the department-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities in the department-wide financial statements. The department-wide statement of net assets and statement of activities can be found on pages 14 and 15 of this report, respectively.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, federal fund, and the aggregate nonmajor governmental funds. The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances can be found on pages 16 and 18 of this report, respectively.

The Department adopts an annual appropriated budget for its general fund and federal fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget. The budgetary comparison statement for the general fund and federal fund can be found on page 20 of this report.

Proprietary Funds

Proprietary funds are used to show activities that operate more like those of commercial enterprises. They are known as enterprise funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the department-wide financial statements. The Department uses enterprise funds to account for the operations of the unemployment compensation fund and the disability compensation fund.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

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Management's Discussion and Analysis

Year ended June 30, 2005

The proprietary funds financial statements provide the same type of information as the business-type activities in the department-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the unemployment compensation fund and disability compensation fund, both of which are considered to be major funds of the Department.

The proprietary funds financial statements can be found on pages 21-23 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the department-wide financial statements because the resources of those funds are not available to support the Department's own programs. The accounting use for fiduciary funds is much like that used for proprietary funds.

The fiduciary funds financial statements can be found on page 24 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the department-wide and fund financial statements.

Department-Wide Financial Analysis

The following is a financial analysis on the governmental activities of the Department. Net assets are a useful indicator of a government's financial position. For the Department, total assets exceeded liabilities by \$492.8 million, and increased \$56.4 million or 12.9% over the course of this fiscal year's operations.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Management's Discussion and Analysis

Year ended June 30, 2005

The following table was derived from the department-wide statement of net assets.

Net Assets

June 30, 2005 and 2004

| Assets | FY 2005 | FY 2004 |
|--|-----------------------|-----------------------|
| Petty cash and imprest funds | \$ 38,925 | \$ 48,425 |
| Cash in State Treasury | 41,049,904 | 42,578,009 |
| Cash held in Federal Treasury | 416,992,699 | 362,900,464 |
| Unemployment taxes receivable | 37,182,126 | 33,187,327 |
| Advances to subrecipients and others | 860,371 | 1,185,449 |
| Due from Federal Government and other | 1,997,153 | 1,117,633 |
| Inventory | 108,227 | 423,436 |
| Prepaid expenses | 1,108,778 | 1,133,944 |
| Capital assets, net | 8,866,589 | 9,587,248 |
| Total assets | <u>508,204,772</u> | <u>452,161,935</u> |
| Liabilities | | |
| Vouchers payable | 5,036,580 | 5,334,313 |
| Accrued payroll and benefits | 1,656,913 | 1,680,334 |
| Due to State General Fund | 38,925 | 48,425 |
| Due to individuals and others | 2,772,576 | 2,847,168 |
| Long-term obligation – accrued vacation: | | |
| Due within one year | 1,908,969 | 1,954,962 |
| Due in more than one year | 3,944,780 | 3,819,911 |
| Total liabilities | <u>15,358,743</u> | <u>15,685,113</u> |
| Net Assets | | |
| Invested in capital assets | 8,866,589 | 9,587,248 |
| Unrestricted | 483,979,440 | 426,889,574 |
| Total net assets | <u>\$ 492,846,029</u> | <u>\$ 436,476,822</u> |

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Management's Discussion and Analysis

Year ended June 30, 2005

Analysis of Net Assets

Total assets increased by \$56 million or 12.4% from the prior fiscal year, due primarily to a \$54.1 million or 14.9% increase in cash held in Federal Treasury and a \$4 million or 12% increase in unemployment taxes receivable. The increase in cash held in Federal Treasury is primarily attributable to employer contributions for unemployment benefits. These increases are offset by a \$2.2 million or 4.3% decrease in net capital assets and cash in State Treasury, which is primarily due to depreciation on capital assets.

Total liabilities decreased by \$326,000 or 2.1% from the prior fiscal year, due primarily to a \$298,000 or 5.6% decrease in vouchers payable and a \$23,000 or 1.4% decrease in accrued payroll and benefits.

The Department's unrestricted net assets increased to \$484 million at June 30, 2005 from \$426.9 million at June 30, 2004, an increase of \$57.1 million or 13.4%. A substantial portion of the unrestricted net assets consists of cash amounts held by the Department's enterprise funds and reported as business-type activities in the statement of net assets. Cash held in Federal Treasury, to be used for benefits to unemployed workers, and cash in State Treasury, to be used for workers injured on the job, aggregated to \$439 million and \$385.9 million at June 30, 2005 and 2004, respectively.

At June 30, 2005, the Department is able to report positive balances of net assets for governmental and business-type activities.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Management's Discussion and Analysis

Year ended June 30, 2005

Changes in Net Assets

The following financial information was derived from the department-wide statement of activities and reflects how the Department's net assets changed during the fiscal year.

Changes in Net Assets

For the fiscal years ended June 30, 2005 and 2004

| | <u>FY 2005</u> | <u>FY 2004</u> |
|---|-----------------------|-----------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 161,283,259 | \$ 237,807,385 |
| Operating grants and contributions | 42,106,571 | 48,712,765 |
| General revenues (expenses): | | |
| State appropriations | 21,535,822 | 21,111,170 |
| Interest income | 22,320,913 | 21,529,791 |
| Loss on disposal of capital assets | — | (13,985) |
| Total revenues | <u>247,246,565</u> | <u>329,147,126</u> |
| Expenses: | | |
| Program support | 17,309,664 | 18,484,534 |
| Full opportunity to work | 25,639,183 | 29,893,331 |
| Fair and just employment practices | 3,372,942 | 3,125,380 |
| Labor-management relations | 536,633 | 496,486 |
| Assistance in work-related difficulties | 144,018,936 | 196,239,647 |
| Total expenses | <u>190,877,358</u> | <u>248,239,378</u> |
| Change in net assets | 56,369,207 | 80,907,748 |
| Net assets, beginning of year | <u>436,476,822</u> | <u>355,569,074</u> |
| Net assets, end of year | <u>\$ 492,846,029</u> | <u>\$ 436,476,822</u> |

Analysis of Changes in Net Assets

The Department's net assets increased by \$56.4 million or 12.9% during the fiscal year ended June 30, 2005. Revenues decreased by \$81.9 million or 24.9% from the prior fiscal year, due primarily to a \$76.5 million or 32.2% decrease in charges for services as a result of the lower unemployment rate of 2.7%. Revenues also decreased due to a \$6.6 million or 13.6% decrease in operating grants and contributions as a result of less federal funds for full opportunity to work and assistance in work-related difficulties activities. These decreases in revenue are offset by a \$1.2 million or 2.9% increase in state appropriations and interest income. Approximately 65.2% of the Department's total revenues came from charges for services (as compared to 72.2% for 2004), while 17% resulted from grants and contributions (including federal aid). The largest expenses were for assistance in work-related difficulties (unemployment and workers' compensation benefits).

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

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Management's Discussion and Analysis

Year ended June 30, 2005

Total expenses decreased by \$57.4 million or 23.1% from the prior fiscal year, due primarily to a \$52.2 million or 26.6% decrease in assistance in work-related difficulties as a result of the lower unemployment rate of 2.7%. Expenses also decreased due to a \$4.3 million or 14.2% decrease in full opportunity to work as a result of less federal funds under the Workforce Investment Act.

Financial Analysis of the State's Individual Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the Department's governmental funds reported combined ending fund balances of \$16.1 million, an increase of \$968,000 or 6.4% from the prior fiscal year.

The general fund and federal fund are the Department's primary operating funds. At the end of the current fiscal year, the fund balances of the Department's general fund and federal fund were \$1.3 million and \$109,000, respectively, which reflects an increase of \$915,000 in the general fund and a decrease of \$117,000 in the federal fund.

Proprietary Funds

The Department maintains enterprise funds for unemployment compensation and disability compensation benefits. As of the end of the current fiscal year, the Department's enterprise funds reported combined ending fund net assets of \$473.7 million, an increase of \$56.2 million or 13.5% from the prior year.

At the end of the current fiscal year, the unemployment compensation fund net assets increased by \$58.2 million or 14.8% from the prior year and the disability compensation fund net assets decreased by \$2 million or 8.3% over the prior fiscal year's fund balances.

Fiduciary Funds

The Department maintains an agency fund for the funds held in bank accounts as security deposits for temporary disability insurance, unemployment compensation, and back wages due to employees.

General Fund Budgetary Highlights

Actual general fund revenues were less than the final budget of \$18,040,992 by \$181,512, and actual general fund expenditures were less than the final budget of \$18,040,992 by \$329,330. The effect of the above resulted in a favorable variance between the final budget and actual results on a budgetary basis of \$147,818 in fiscal year 2005.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

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Management's Discussion and Analysis

Year ended June 30, 2005

Federal Fund Budgetary Highlights

Actual federal fund revenues were less than the original and final budget of \$48,323,000 by \$5,030,932, and actual federal fund expenditures were less than the original and final budget of \$76,148,759 by \$31,355,180. These differences are primarily attributable to budgeted amounts being based on a higher anticipated unemployment rate of 3.7%. The effect of the above resulted in a favorable variance between the original and final budget and actual results on a budgetary basis of \$26,324,248 in fiscal year 2005.

Capital Assets

The Department's investment in capital assets as of June 30, 2005 and 2004 amounted to \$8,866,589 and \$9,587,248, respectively, (net of accumulated depreciation of \$15,335,548 and \$14,684,231 at June 30, 2005 and 2004, respectively). This investment in capital assets includes buildings, furniture and equipment, and vehicles.

Additional information on the Department's capital assets can be found in note 5 of the notes to basic financial statements.

Economic Factors and Next Year's Budget

In fiscal year 2005, both Hawaii's civilian labor force and employment increased over fiscal year 2004. The labor force grew by 3% while employment rose by 3.7%. During fiscal year 2005, an average of 612,950 people were employed statewide, an increase of 21,600 over fiscal year 2004. The unemployment rate in fiscal year 2005 was 2.7%, down from 3.7% in fiscal year 2004.

The number of wage and salary jobs was up 2.9% for fiscal year 2005 compared to fiscal year 2004. Jobs are up most notably in retail trade; construction; professional and business services; and transportation, warehousing, and utilities, each with an increase of at least 2,000 jobs.

Unemployment remains low with the statewide seasonally adjusted unemployment rate of 2.7% for the past six months. One year ago, Hawaii's seasonally adjusted unemployment rate was 3.1%, while the seasonally adjusted national unemployment rate was 5.5%.

In September 2005, the Council on Revenues estimated that the State's general fund tax growth rate would be 6.0% in fiscal year 2006, and 6.6% in fiscal year 2007. Since the current condition of Hawaii's economy is good, the Governor has not imposed any restriction on general fund discretionary expenditures of all Executive Branch departments and agencies for fiscal year 2006. However, consultant and personal services contracts greater than \$25,000 and the filling of nonessential positions continue to require the approval of the Governor, and other expenditure controls implemented in fiscal year 2005 continue to be in force.

Updates to revenue projections issued by the Council on Revenues will impact the Governor's policy on budget formulation and, accordingly, the Department's future budget.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Management's Discussion and Analysis

Year ended June 30, 2005

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Department of Labor and Industrial Relations, 830 Punchbowl Street, Room 321, Honolulu, Hawaii 96813. General information about the Department can be found at the State's website, <http://www.hawaii.gov/labor>.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Statement of Net Assets

June 30, 2005

| Assets | Governmental Activities | Business-Type Activities | Total |
|--|------------------------------------|-------------------------------------|----------------|
| Petty cash and imprest funds | \$ 38,925 | \$ — | \$ 38,925 |
| Cash in State Treasury | 19,047,159 | 22,002,745 | 41,049,904 |
| Cash held in Federal Treasury | — | 416,992,699 | 416,992,699 |
| Unemployment taxes receivable | — | 37,182,126 | 37,182,126 |
| Advances to subrecipients and others | 860,371 | — | 860,371 |
| Due from Federal Government and other | 1,997,153 | — | 1,997,153 |
| Internal balances | 45,627 | (45,627) | — |
| Inventory | 108,227 | — | 108,227 |
| Prepaid expenses | 103,726 | 1,005,052 | 1,108,778 |
| Capital assets, net | 8,866,589 | — | 8,866,589 |
| | <hr/> | <hr/> | <hr/> |
| Total assets | 31,067,777 | 477,136,995 | 508,204,772 |
| | <hr/> | <hr/> | <hr/> |
| Liabilities | | | |
| Liabilities: | | | |
| Vouchers payable | 2,516,890 | 2,519,690 | 5,036,580 |
| Accrued payroll and benefits | 1,656,913 | — | 1,656,913 |
| Due to State General Fund | 38,925 | — | 38,925 |
| Due to individuals and others | 1,857,034 | 915,542 | 2,772,576 |
| Long-term obligation – accrued vacation: | | | |
| Due within one year | 1,908,969 | — | 1,908,969 |
| Due in more than one year | 3,944,780 | — | 3,944,780 |
| | <hr/> | <hr/> | <hr/> |
| Total liabilities | 11,923,511 | 3,435,232 | 15,358,743 |
| | <hr/> | <hr/> | <hr/> |
| Net Assets | | | |
| Invested in capital assets | 8,866,589 | — | 8,866,589 |
| Unrestricted | 10,277,677 | 473,701,763 | 483,979,440 |
| | <hr/> | <hr/> | <hr/> |
| Total net assets | \$ 19,144,266 | \$ 473,701,763 | \$ 492,846,029 |
| | <hr/> | <hr/> | <hr/> |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Statement of Activities

Year ended June 30, 2005

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|-----------------------|------------------------------------|-----------------------|---|--------------------------|-----------------------|
| | Program Expenses | Operating Grants and Contributions | Charges for Services | Governmental Activities | Business-Type Activities | Total |
| Functions/programs: | | | | | | |
| Governmental activities: | | | | | | |
| Program support | \$ 17,309,664 | \$ 8,578,290 | \$ — | \$ (8,731,374) | \$ — | \$ (8,731,374) |
| Full opportunity to work | 25,639,183 | 22,644,069 | 1,979,848 | (1,015,266) | — | (1,015,266) |
| Fair and just employment practices | 3,372,942 | 226,754 | — | (3,146,188) | — | (3,146,188) |
| Labor – management relations | 536,633 | — | — | (536,633) | — | (536,633) |
| Assistance in work-related difficulties | 19,204,434 | 10,657,458 | 575,162 | (7,971,814) | — | (7,971,814) |
| Nonwork connected disability | 81,129 | — | 5,723 | (75,406) | — | (75,406) |
| Premium supplementation | 209,984 | — | 1,648 | (208,336) | — | (208,336) |
| Total governmental activities | <u>66,353,969</u> | <u>42,106,571</u> | <u>2,562,381</u> | <u>(21,685,017)</u> | <u>—</u> | <u>(21,685,017)</u> |
| Business-type activities: | | | | | | |
| Unemployment compensation | 106,510,259 | — | 143,262,004 | — | 36,751,745 | 36,751,745 |
| Disability compensation | 18,013,130 | — | 15,458,874 | — | (2,554,256) | (2,554,256) |
| Total business-type activities | <u>124,523,389</u> | <u>—</u> | <u>158,720,878</u> | <u>—</u> | <u>34,197,489</u> | <u>34,197,489</u> |
| | <u>\$ 190,877,358</u> | <u>\$ 42,106,571</u> | <u>\$ 161,283,259</u> | <u>(21,685,017)</u> | <u>34,197,489</u> | <u>12,512,472</u> |
| General revenues (expenses): | | | | | | |
| State appropriations, net | | | | 21,535,822 | — | 21,535,822 |
| Interest income | | | | 317,866 | 22,003,047 | 22,320,913 |
| Net general revenues | | | | <u>21,853,688</u> | <u>22,003,047</u> | <u>43,856,735</u> |
| Change in net assets | | | | 168,671 | 56,200,536 | 56,369,207 |
| Net assets: | | | | | | |
| Beginning of year | | | | 18,975,595 | 417,501,227 | 436,476,822 |
| End of year | | | | <u>\$ 19,144,266</u> | <u>\$ 473,701,763</u> | <u>\$ 492,846,029</u> |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Balance Sheet – Governmental Funds

June 30, 2005

| Assets | General | Federal Fund | Nonmajor Governmental Funds | Total |
|---|---------------------|-------------------------|--|----------------------|
| Petty cash and imprest funds | \$ 10,100 | \$ 28,825 | \$ — | \$ 38,925 |
| Cash in State Treasury | 1,873,116 | 2,467,771 | 14,706,272 | 19,047,159 |
| Advances to subrecipients and others | — | 860,371 | — | 860,371 |
| Due from Federal Government and other | 67,393 | 1,929,760 | — | 1,997,153 |
| Due from enterprise funds | — | — | 45,627 | 45,627 |
| Inventory | — | 108,227 | — | 108,227 |
| Prepaid expenses | — | 103,726 | — | 103,726 |
| Total assets | \$ 1,950,609 | \$ 5,498,680 | \$ 14,751,899 | \$ 22,201,188 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Vouchers payable | \$ 80,851 | \$ 2,435,603 | \$ 436 | \$ 2,516,890 |
| Accrued payroll and benefits | 588,293 | 1,068,620 | — | 1,656,913 |
| Due to State General Fund | 10,100 | 28,825 | — | 38,925 |
| Due to individuals and others | — | 1,857,034 | — | 1,857,034 |
| Total liabilities | 679,244 | 5,390,082 | 436 | 6,069,762 |
| Fund balances: | | | | |
| Unreserved | 801,436 | 371 | — | 801,807 |
| Reserved for encumbrances | 469,929 | — | — | 469,929 |
| Reserved for inventory | — | 108,227 | — | 108,227 |
| Reserved for unemployment insurance administration | — | — | 849,717 | 849,717 |
| Reserved for employment and training | — | — | 2,205,405 | 2,205,405 |
| Reserved for occupational safety and health training and assistance | — | — | 1,942 | 1,942 |
| Reserved for boiler/elevator safety | — | — | 2,599 | 2,599 |
| Reserved for nonwork related disability | — | — | 8,325,062 | 8,325,062 |
| Reserved for health care insurance premium supplementation | — | — | 3,366,738 | 3,366,738 |
| Total fund balances | 1,271,365 | 108,598 | 14,751,463 | 16,131,426 |
| Total liabilities and fund balances | \$ 1,950,609 | \$ 5,498,680 | \$ 14,751,899 | \$ 22,201,188 |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Assets

Year ended June 30, 2005

| | | | |
|---|----|---------------------|--------------------------|
| Total fund balances – governmental funds | | \$ | 16,131,426 |
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund financial statements: | | | |
| These assets consist of: | | | |
| Capital assets | \$ | 24,202,137 | |
| Accumulated depreciation | | <u>(15,335,548)</u> | |
| Total capital assets | | | 8,866,589 |
| Long-term liabilities are not due and payable in the current period, and therefore, not reported in the fund financial statements | | | <u>(5,853,749)</u> |
| Net assets of governmental activities | \$ | | <u><u>19,144,266</u></u> |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

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

Year ended June 30, 2005

| | <u>General</u> | <u>Federal Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|----------------------------|--------------------------|--|-----------------------------|
| Revenues: | | | | |
| State allotted appropriations: | | | | |
| Full opportunity to work | \$ 2,485,113 | \$ — | \$ — | \$ 2,485,113 |
| Fair and just employment practices | 2,255,552 | — | — | 2,255,552 |
| Labor – management relations | 418,565 | — | — | 418,565 |
| Assistance in work related difficulties | 4,931,932 | — | — | 4,931,932 |
| Overall program support | 7,768,318 | — | — | 7,768,318 |
| Total State allotted appropriations | <u>17,859,480</u> | <u>—</u> | <u>—</u> | <u>17,859,480</u> |
| Nonimposed employee fringe benefits | <u>3,872,428</u> | <u>—</u> | <u>—</u> | <u>3,872,428</u> |
| Total general revenues | <u>21,731,908</u> | <u>—</u> | <u>—</u> | <u>21,731,908</u> |
| Program revenues: | | | | |
| Operating grants and contributions | — | 42,106,571 | — | 42,106,571 |
| Employment and training assessments | — | — | 1,979,848 | 1,979,848 |
| Other assessments | — | — | 582,533 | 582,533 |
| Total program revenues | <u>—</u> | <u>42,106,571</u> | <u>2,562,381</u> | <u>44,668,952</u> |
| Interest income | <u>—</u> | <u>—</u> | <u>317,866</u> | <u>317,866</u> |
| Total revenues | <u>21,731,908</u> | <u>42,106,571</u> | <u>2,880,247</u> | <u>66,718,726</u> |
| Expenditures: | | | | |
| Full opportunity to work | 2,825,429 | 20,733,500 | 1,775,170 | 25,334,099 |
| Fair and just employment practices | 2,957,598 | 344,363 | — | 3,301,961 |
| Labor – management relations | 518,406 | — | — | 518,406 |
| Assistance in work-related difficulties | 6,291,516 | 11,910,638 | 935,070 | 19,137,224 |
| Overall program support | 7,993,839 | 9,092,477 | — | 17,086,316 |
| Capital outlays | 33,580 | 142,848 | — | 176,428 |
| Total expenditures | <u>20,620,368</u> | <u>42,223,826</u> | <u>2,710,240</u> | <u>65,554,434</u> |
| Excess (deficiency) of revenues over (under) expenditures | 1,111,540 | (117,255) | 170,007 | 1,164,292 |
| Other financing uses: | | | | |
| Lapsed appropriations related to previous years | <u>(196,086)</u> | <u>—</u> | <u>—</u> | <u>(196,086)</u> |
| Net change in fund balances | 915,454 | (117,255) | 170,007 | 968,206 |
| Fund balances: | | | | |
| Beginning of year | <u>355,911</u> | <u>225,853</u> | <u>14,581,456</u> | <u>15,163,220</u> |
| End of year | \$ <u><u>1,271,365</u></u> | \$ <u><u>108,598</u></u> | \$ <u><u>14,751,463</u></u> | \$ <u><u>16,131,426</u></u> |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Reconciliation of Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities

Year ended June 30, 2005

| | | | |
|--|--|----|-----------------------|
| Total net change in fund balances of governmental funds | | \$ | 968,206 |
| 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 expenses are: | | | |
| Capital asset expenditures | | \$ | 176,428 |
| Depreciation expense | | | <u>(897,087)</u> |
| Excess of depreciation expense over capital asset expenditures | | | (720,659) |
| The decrease in accrued vacation is reported in the statement of activities but does not require the use of current financial resources and is therefore not reported as an expenditure in governmental funds | | | |
| | | | <u>(78,876)</u> |
| Change in net assets of governmental activities | | \$ | <u><u>168,671</u></u> |

See accompanying notes to basic financial statements.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund and Federal Fund
Year ended June 30, 2005

| | General Fund | | | | Federal Fund | | |
|---|----------------------------|-------------------------|---|---|--|---|---|
| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance Favorable (Unfavorable) | Original and Final Budget | Actual (Budgetary Basis) | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | | |
| State allotted appropriations | \$ 17,403,700 | \$ 18,040,992 | \$ 17,859,480 | \$ (181,512) | \$ — | \$ — | \$ — |
| Operating grants and contributions | — | — | — | — | 48,323,000 | 43,292,068 | (5,030,932) |
| Total revenues | <u>17,403,700</u> | <u>18,040,992</u> | <u>17,859,480</u> | <u>(181,512)</u> | <u>48,323,000</u> | <u>43,292,068</u> | <u>(5,030,932)</u> |
| Expenditures: | | | | | | | |
| Full opportunity to work | 2,454,471 | 2,528,685 | 2,485,112 | 43,573 | 50,958,425 | 23,682,731 | 27,275,694 |
| Fair and just employment practices | 2,202,263 | 2,202,263 | 2,255,552 | (53,289) | 458,988 | 332,199 | 126,789 |
| Labor – management relations | 424,434 | 424,434 | 418,565 | 5,869 | — | — | — |
| Assistance in work-related difficulties | 4,868,853 | 4,868,853 | 4,917,008 | (48,155) | 14,035,689 | 12,158,578 | 1,877,111 |
| Overall program support | 7,453,679 | 8,016,757 | 7,635,425 | 381,332 | 10,695,657 | 8,620,071 | 2,075,586 |
| Total expenditures | <u>17,403,700</u> | <u>18,040,992</u> | <u>17,711,662</u> | <u>329,330</u> | <u>76,148,759</u> | <u>44,793,579</u> | <u>31,355,180</u> |
| Excess of revenues over expenditures | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 147,818</u> | <u>\$ 147,818</u> | <u>\$ (27,825,759)</u> | <u>\$ (1,501,511)</u> | <u>\$ 26,324,248</u> |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Statement of Net Assets – Proprietary Funds

June 30, 2005

| Assets | Enterprise Funds | | Total |
|-----------------------------------|---|---|----------------|
| | Unemployment Compensation Fund | Disability Compensation Fund | |
| Cash and deposits: | | | |
| Cash in State Treasury | \$ 221,352 | \$ 21,781,393 | \$ 22,002,745 |
| Cash in Federal Treasury | 416,992,699 | — | 416,992,699 |
| | 417,214,051 | 21,781,393 | 438,995,444 |
| Unemployment taxes receivable | 37,182,126 | — | 37,182,126 |
| Prepaid expense | — | 1,005,052 | 1,005,052 |
| | 454,396,177 | 22,786,445 | 477,182,622 |
| Liabilities and Net Assets | | | |
| Liabilities: | | | |
| Vouchers payable | 1,340,936 | 1,178,754 | 2,519,690 |
| Due to special revenue funds | 45,627 | — | 45,627 |
| Due to other State agencies | 915,542 | — | 915,542 |
| | 2,302,105 | 1,178,754 | 3,480,859 |
| Net assets – unrestricted | \$ 452,094,072 | \$ 21,607,691 | \$ 473,701,763 |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

Year ended June 30, 2005

| | Enterprise Funds | | Total |
|---|---|---|----------------|
| | Unemployment Compensation Fund | Disability Compensation Fund | |
| Operating revenues: | | | |
| Intergovernmental contributions | \$ 6,107,679 | \$ — | \$ 6,107,679 |
| Employer contributions | 137,154,325 | — | 137,154,325 |
| Workers' compensation assessments | — | 15,299,875 | 15,299,875 |
| Fines and penalties | — | 56,243 | 56,243 |
| Other | — | 102,756 | 102,756 |
| | 143,262,004 | 15,458,874 | 158,720,878 |
| Total operating revenues | | | |
| Operating expenses: | | | |
| Assistance in work related difficulties | 106,510,259 | 18,013,130 | 124,523,389 |
| | 36,751,745 | (2,554,256) | 34,197,489 |
| Operating income (loss) | | | |
| Nonoperating revenues: | | | |
| Interest income | 21,406,513 | 596,534 | 22,003,047 |
| | 58,158,258 | (1,957,722) | 56,200,536 |
| Change in net assets | | | |
| Net assets: | | | |
| Beginning of year | 393,935,814 | 23,565,413 | 417,501,227 |
| End of year | \$ 452,094,072 | \$ 21,607,691 | \$ 473,701,763 |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII

Statement of Cash Flows – Proprietary Funds
Year ended June 30, 2005

| | Enterprise Funds | | Total |
|---|---|---|----------------|
| | Unemployment Compensation Fund | Disability Compensation Fund | |
| Cash flows from operating activities: | | | |
| Cash received from contributions and assessments | \$ 139,267,205 | \$ 15,458,874 | \$ 154,726,079 |
| Cash paid for work-related difficulties | (106,563,061) | (17,116,733) | (123,679,794) |
| Net cash provided by (used in) operating activities | 32,704,144 | (1,657,859) | 31,046,285 |
| Cash flows provided by investing activities: | | | |
| Interest from investments | 21,406,513 | 596,534 | 22,003,047 |
| Net increase (decrease) in cash and deposits | 54,110,657 | (1,061,325) | 53,049,332 |
| Cash and deposits: | | | |
| Beginning of year | 363,103,394 | 22,842,718 | 385,946,112 |
| End of year | \$ 417,214,051 | \$ 21,781,393 | \$ 438,995,444 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Operating income (loss) | \$ 36,751,745 | \$ (2,554,256) | \$ 34,197,489 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Decrease (increase) in assets: | | | |
| Receivables | (3,994,799) | — | (3,994,799) |
| Prepaid expense | — | 34,489 | 34,489 |
| Increase (decrease) in liabilities: | | | |
| Vouchers and other payables | (52,802) | 861,908 | 809,106 |
| Net cash provided by (used in) operating activities | \$ 32,704,144 | \$ (1,657,859) | \$ 31,046,285 |

See accompanying notes to basic financial statements.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2005

| Assets | Agency Funds | | | | Total |
|-------------------------------|-------------------------------|---|--------------------------------------|---------------------------------|--------------|
| | Temporary Deposits | Temporary Disability Insurance | Unemployment Compensation | Wage Claim and Other | |
| Cash in State Treasury | \$ 2,000 | \$ 273 | \$ 784,000 | \$ 2,678,612 | \$ 3,464,885 |
| Investments | — | 1,603,000 | — | — | 1,603,000 |
| Total assets | \$ 2,000 | \$ 1,603,273 | \$ 784,000 | \$ 2,678,612 | \$ 5,067,885 |
| Liabilities | | | | | |
| Due to individuals and others | \$ 2,000 | \$ 1,603,273 | \$ 784,000 | \$ 2,678,612 | \$ 5,067,885 |
| Total liabilities | \$ 2,000 | \$ 1,603,273 | \$ 784,000 | \$ 2,678,612 | \$ 5,067,885 |

See accompanying notes to basic financial statements.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

(1) Organization and Financial Statement Presentation

(a) *Financial Reporting Entity*

The Department of Labor and Industrial Relations (the Department) is a department of the State of Hawaii (the State). The Department administers and oversees the operations of the State's employment service programs, unemployment insurance program, occupational safety and health program, workers' compensation program, temporary disability compensation program, and prepaid healthcare program. The Department also oversees employment and training services provided through federal and special funds.

The Director of Labor and Industrial Relations is responsible for the direction of the Department's activities. The Director is a cabinet level official appointed by the Governor with the consent of the Senate.

The Department's basic financial statements present the financial position and changes in financial position and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that are attributable to the transactions of the Department. The State Comptroller maintains the central accounts for all State funds and publishes comprehensive financial statements for the State annually, which include the Department's financial activities.

The accounting policies of the Department conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the significant accounting policies:

(b) *Department-wide and Fund Financial Statements*

The department-wide financial statements, which are the statement of net assets and the statement of activities, report information of all of the nonfiduciary activities of the Department. For the most part, the effect of interfund activity has been removed from these department-wide financial statements.

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

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

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

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the department-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The financial activities of the Department that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor governmental and proprietary funds. In addition, a description of the Department's fiduciary fund is as follows:

Governmental Fund Types

The Department reports the following major governmental funds:

General Fund

This fund is the Department's primary operating fund. It accounts for all financial activities of the Department, 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.

Federal Fund

This fund accounts for all programs related to employment and training services provided through federal funds.

The nonmajor governmental funds are comprised of the following:

Special Revenue Funds

These funds account for the financial resources obtained from specific revenue sources and used for restricted purposes.

Proprietary Fund Type

Enterprise Funds

Enterprise funds are used to account for the contributions and assessments collected and benefits paid to qualified recipients for unemployment and disability compensation.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

Unemployment Compensation Fund

This fund was created to provide temporary income to unemployed individuals as required by the federal Social Security and National Employment Acts. The fund's operations are financed through State unemployment insurance premiums (payroll taxes) assessed on employers and interest earnings.

Disability Compensation Fund

This fund was created to enhance the employability of persons with pre-existing injuries, to reduce discrimination against persons with dependants, and require employers to pay compensation for employees' losses sustained while in their employment. The fund's operations are financed through levies on workers' compensation carriers and self-insured employers, interest earnings, reimbursements from defaulting employers, unpaid benefits in certain cases, and fines for noncompliance with workers' compensation law.

Fiduciary Fund Type

Agency Fund

These funds account for assets held by the Department in an agency capacity.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

Department-wide Financial Statements

The department-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Funds Financial Statements

The governmental funds financial statements are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified-accrual basis of accounting is used by the governmental fund types. Under the modified-accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at year end).

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

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 year end to liquidate liabilities existing at the end of the fiscal year. The Department considers receivables collected within 60 days after year end to be available and recognizes them as revenues of the current year.

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

Expenditures are generally recorded when a liability is incurred, as underaccrual accounting. However, expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will generally be honored during the subsequent fiscal year.

Proprietary and Fiduciary Funds Financial Statements

The financial statements of the proprietary and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the department-wide financial statements described above.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(b) Inventory

Inventory is valued at the lower of cost or market and consists of food commodities from the U.S. Department of Agriculture, Food and Nutrition Service Agency, under The Emergency Food Distribution Program. The cost is recorded as an expenditure when items are distributed rather than when purchased.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

(c) Capital Assets

Capital assets are not capitalized in the governmental funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the department-wide statement of net assets. Capital assets acquired by purchase are recorded at cost. Donated capital assets are valued at the estimated fair market value on the date received. Maintenance, repairs, minor replacements, renewals, and betterments are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and are depreciated on the straight-line method over the estimated useful lives of the respective assets (buildings – 30 years, furniture and equipment – 7 years, and vehicles – 5 years). Depreciation is recorded on capital assets on the department-wide statement of activities.

(d) Accrued Vacation and Sick Leave

Employees hired on or before July 1, 2001 earn vacation at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001, earn vacation at rates ranging between 1 and 2 working days for each month of service, depending upon the employees' years of service and job classifications. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. All vacation pay is accrued when incurred in the department-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

(e) Net Assets and Fund Balances

In the department-wide and proprietary funds financial statements, net assets are reported in two categories: net assets invested in capital assets and unrestricted net assets.

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

(f) Intrafund Transactions

Transfers of financial resources within the same fund are eliminated.

(g) New Accounting Pronouncement

Effective July 1, 2004, the Department adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposits and investment risks related to credit risks, concentration of credit risk, and interest rate risk. As an element of interest rate risk, this statement requires certain disclosures of investments that

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed. Implementation of GASB Statement No. 40 did not have a significant impact on the Department's financial statements but required additional footnote disclosures for the year ended June 30, 2005 (see note 4).

(h) Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues, expenditures, and other financing sources and uses during the reporting period. Actual results could differ from those estimates.

(3) Budgeting and Budgetary Control

The budget of the Department is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) – general and federal funds are those estimates as compiled by the Department. Budgeted expenditures are derived primarily from the General Appropriations Act of 2003 (Act 200, Session Laws of Hawaii (SLH) 2003), and as amended by the Supplemental Appropriations Act of 2004, and from other authorizations contained in the State Constitution, the HRS, and other specific appropriations acts in various SLH.

All expenditures of appropriated funds have been made pursuant to the appropriations in the fiscal 2003 – 2005 biennial budget. The general and special revenue funds have legally appropriated annual budgets. The final legally adopted budgets in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – general and federal funds represent the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department. During the fiscal year ended June 30, 2005, there were no expenditures in excess of appropriations at the legal level of budgetary control.

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

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

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June 30, 2005

Budgets adopted by the State Legislature for the general and federal funds are presented in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – general and federal funds. The Department’s annual budget is prepared on the modified-accrual basis of accounting with several differences from the preparation of the statement of revenues, expenditures, and changes in fund balances (deficit), principally related to encumbrance of purchase orders and contract obligations and accrued revenues and expenditures, which represent departures from GAAP.

| | <u>General Fund</u> | <u>Federal Fund</u> |
|---|-------------------------|-------------------------|
| Excess of revenues over expenditures – actual (budgetary basis) | \$ 147,818 | \$ (1,501,511) |
| Reserve for encumbrances at fiscal year end | 469,929 | — |
| Expenditures for liquidation of prior fiscal year encumbrances | (894,026) | (84,851) |
| Accrued revenues and expenditures not recognized for budgetary purposes – net of prior year accruals | <u>1,191,733</u> | <u>1,469,107</u> |
| Net change in fund balances – actual (GAAP basis) | <u>\$ 915,454</u> | <u>\$ (117,255)</u> |

(4) Cash and Investments

(a) Cash in State Treasury

The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The State Director of Finance pools and invests any monies of the State, which in the Director’s judgment, are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposits, and repurchase agreements with federally-insured financial institutions.

The State established a policy whereby all unrestricted and certain restricted cash is invested in the State’s investment pool. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account. The Department records the pooled assets as cash in State Treasury.

For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being undercollateralized at 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.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

Concentration of Credit Risk

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

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

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June 30, 2005

The carrying value of the Department's cash in State Treasury at June 30, 2005 was \$44,514,789 (\$19,047,159 for the governmental funds, \$22,002,745 for the proprietary funds, and \$3,464,885 for the fiduciary fund). Information relating to the cash in State Treasury is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the cash (which includes the Department's cash in State Treasury) and collateralization of the cash balances is included in the comprehensive annual financial report of the State. The Department's share of the cash in State Treasury, as summarized in the table below, is 1.1%

| | <u>Fair value</u> | <u>Maturity (in years)</u> | | |
|----------------------------------|---------------------|----------------------------|------------------|-----------|
| | | <u>Less than 1</u> | <u>1-5</u> | <u>30</u> |
| (Amounts expressed in thousands) | | | | |
| State Treasury: | | | | |
| Cash and cash equivalents | \$ 2,074,860 | 2,074,860 | — | — |
| Investments: | | | | |
| Certificates of deposit | 68,299 | 53,299 | 15,000 | — |
| U.S. government securities | 1,374,711 | — | 1,374,700 | 11 |
| Repurchase agreements | 361,065 | 345,408 | 15,657 | — |
| Total investments | <u>1,804,075</u> | <u>398,707</u> | <u>1,405,357</u> | <u>11</u> |
| Total State Treasury | <u>\$ 3,878,935</u> | <u>2,473,567</u> | <u>1,405,357</u> | <u>11</u> |

(b) Cash in Bank

The carrying value of the Department's cash in bank balance of \$38,925 for the Governmental Funds equals the bank balance and was uncollateralized at June 30, 2005.

(c) Cash held in Federal Treasury

Unemployment compensation contributions received by the State Treasury are deposited with the Secretary of the Treasury of the United States to the credit of the State in the unemployment compensation fund, pursuant to Section 904 of the Social Security Act, as amended. Cash held in federal treasury amounted to \$416,992,699 at June 30, 2005.

(d) Investments

Investments in the Fiduciary Funds amounted to \$1,603,000 at June 30, 2005. Investment securities are held by the State of Hawaii and represent amounts deposited by self-insured employers in lieu of workers' compensation insurance, temporary disability insurance, and prepaid healthcare plan insurance.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

At June 30, 2005, investments consist of the following:

| | | |
|---|----|-------------------------|
| U.S. Treasury note, maturing October 15, 2006 | \$ | 1,600,000 |
| Certificate of deposit | | 3,000 |
| | | <u>3,000</u> |
| | \$ | <u><u>1,603,000</u></u> |

(5) Capital Assets

The following is a summary of changes in capital assets:

| | <u>Balance, June 30, 2004</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance, June 30, 2005</u> |
|------------------------------------|-----------------------------------|---------------------|--------------------|-----------------------------------|
| Buildings | \$ 20,614,785 | \$ — | \$ — | \$ 20,614,785 |
| Furniture and equipment | 3,632,294 | 176,428 | (245,770) | 3,562,952 |
| Vehicles | 24,400 | — | — | 24,400 |
| Total capital assets | <u>24,271,479</u> | <u>176,428</u> | <u>(245,770)</u> | <u>24,202,137</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (11,703,825) | (668,609) | — | (12,372,434) |
| Furniture and equipment | (2,963,326) | (223,598) | 245,770 | (2,941,154) |
| Vehicles | (17,080) | (4,880) | — | (21,960) |
| Total accumulated depreciation | <u>(14,684,231)</u> | <u>(897,087)</u> | <u>245,770</u> | <u>(15,335,548)</u> |
| Capital assets – net | <u>\$ 9,587,248</u> | <u>\$ (720,659)</u> | <u>\$ —</u> | <u>\$ 8,866,589</u> |

During the fiscal year ended June 30, 2005, depreciation expense was charged to functions of the Department as follows:

| | | |
|---|----|-----------------------|
| Program support | \$ | 204,417 |
| Full opportunity to work | | 290,098 |
| Fair and just employment practices | | 56,783 |
| Labor – management relations | | 15,861 |
| Assistance in work related difficulties | | 329,928 |
| Total depreciation expense | \$ | <u><u>897,087</u></u> |

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

(6) Long-term Obligation – Governmental Activities – Accrued Vacation

The changes to the accrued vacation liability during the fiscal year ended June 30, 2005 are as follows:

| | |
|--------------------------|----------------------------|
| Balance at July 1, 2004 | \$ 5,774,873 |
| Vacation earned | 2,432,126 |
| Vacation utilized | <u>(2,353,250)</u> |
| Balance at June 30, 2005 | 5,853,749 |
| Less current portion | <u>(1,908,969)</u> |
| | <u><u>\$ 3,944,780</u></u> |

(7) Nonimposed Employee Fringe Benefits

Payroll fringe benefit costs of employees of the Department funded by state appropriations (general fund) are assumed by the State and are not charged to the Department's operating funds. These costs, totaling \$3,872,428 for the fiscal year ended June 30, 2005, have been reported as revenues and expenditures within the Department's general fund.

Payroll fringe benefit costs related to federally-funded salaries are not assumed by the State and are recorded as expenditures in the federal fund and nonmajor governmental funds.

(8) Employee Benefits

(a) *Employees' Retirement System*

Substantially all eligible employees of the Department are 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. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action. 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. 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.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

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Most covered employees of the contributory option are required to contribute 7.8% 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 a closed period ending June 30, 2029.

Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as the Department. For the years ended June 30, 2005, 2004, and 2003, the Department made contributions of approximately \$1,259,000, \$1,283,000, and \$1,285,000, respectively, which were equal to its required contributions.

ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

(b) *Postretirement Healthcare and Life Insurance Benefits*

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

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten 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 healthcare 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. For the fiscal year ended June 30, 2005, the Department's contribution for post-retirement healthcare and life insurance benefits was approximately \$973,000.

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

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

(c) *Accumulated Sick Leave*

Employees hired on or before July 1, 2001, earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001, earn vacation at the rate of one and one-quarter or one and three-quarters working days for each month of service depending upon the employees' years of service and job classification. Sick leave credits may accumulate without limit, but may be taken only in the event of illness and are not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2005, accumulated sick leave approximated \$23,780,000 for the Department.

(d) *Deferred Compensation Plan*

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation Plan are not reported in the accompanying basic financial statements.

(9) **Commitments**

(a) *Operating Leases*

The Department leases various office facilities under lease agreements expiring through fiscal year 2009. The following is a schedule of minimum future rentals on noncancelable operating leases with lease terms over a year at June 30, 2005:

| | |
|-----------------------------|---------------------|
| Fiscal year ending June 30: | |
| 2006 | \$ 313,000 |
| 2007 | 274,000 |
| 2008 | 274,000 |
| 2009 | 274,000 |
| 2010 | 148,000 |
| | <u>\$ 1,283,000</u> |

Rent expenditures for the fiscal year ended June 30, 2005 approximated \$1,384,000.

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Notes to Basic Financial Statements

June 30, 2005

(b) Insurance Coverage

The State maintains certain insurance coverages to satisfy bond indenture agreements, as well as for other purposes, but is substantially self-insured for all other perils, including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2005, the State recorded an estimated loss for workers' compensation, automobile, and general liability claims as long-term debt as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's general fund and not by the Department.

(c) Litigation

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

(10) Food Distribution Program

The Department receives food commodities from the U.S. Department of Agriculture, Food, and Nutrition Service Agency, under the Food Distribution Program. The Department's Office of Community Services distributes the food to community action agencies responsible for distributing The Emergency Food Assistance Program commodities to needy households or other charitable organizations. The value of food commodities received by the Department during the fiscal year ended June 30, 2005 is included in revenues of the Federal Fund and approximated \$1,147,000.

(11) Special Compensation Fund – Workers' Compensation

HRS Section 386-151 established the Special Compensation Fund. This fund is authorized to levy and collect assessments from insurers and employers for current and projected obligations for workers' compensation payments. The State Director of Finance is the custodian of the fund, and disbursements are made by the State Director of Finance upon orders from the Director of Labor and Industrial Relations.

HRS Section 386-56 states that the Director of Labor and Industrial Relations shall pay the full amount of all compensation awards and benefits from the Special Compensation Fund to an employee or dependent who fails to receive prompt and proper workers' compensation. The defaulting employer shall then reimburse the fund for the amounts paid to the employee. Total expenditures for the fiscal year ended June 30, 2005 were approximately \$17,194,000.

SECTION III

Supplementary Information

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2005

| | Special Revenue Funds | | | | | | |
|---|---|--|---|---|--|---|--|
| | Employment and Training Fund | Occupational Safety and Health Training and Assistance Fund | Boiler/ Elevator Safety Fund | Special Unemployment Insurance Administration Fund | Nonwork Connected Disability Fund | Premium Supplementation Fund | Total Nonmajor Governmental Funds |
| Cash in State Treasury | \$ 2,201,436 | \$ 1,942 | \$ 2,599 | \$ 808,059 | \$ 8,325,498 | \$ 3,366,738 | \$ 14,706,272 |
| Due from enterprise funds | 3,969 | — | — | 41,658 | — | — | 45,627 |
| Total assets | <u>\$ 2,205,405</u> | <u>\$ 1,942</u> | <u>\$ 2,599</u> | <u>\$ 849,717</u> | <u>\$ 8,325,498</u> | <u>\$ 3,366,738</u> | <u>\$ 14,751,899</u> |
| Liability and Fund Balances | | | | | | | |
| Liability: | | | | | | | |
| Vouchers payable | \$ — | \$ — | \$ — | \$ — | \$ 436 | \$ — | \$ 436 |
| Fund balances: | | | | | | | |
| Reserved for unemployment insurance administration | — | — | — | 849,717 | — | — | 849,717 |
| Reserved for employment and training | 2,205,405 | — | — | — | — | — | 2,205,405 |
| Reserved for occupational safety and health training and assistance | — | 1,942 | — | — | — | — | 1,942 |
| Reserved for boiler/elevator safety | — | — | 2,599 | — | — | — | 2,599 |
| Reserved for nonwork related disability | — | — | — | — | 8,325,062 | — | 8,325,062 |
| Reserved for health care insurance premium supplementation | — | — | — | — | — | 3,366,738 | 3,366,738 |
| Total fund balances | <u>2,205,405</u> | <u>1,942</u> | <u>2,599</u> | <u>849,717</u> | <u>8,325,062</u> | <u>3,366,738</u> | <u>14,751,463</u> |
| Total liability and fund balances | <u>\$ 2,205,405</u> | <u>\$ 1,942</u> | <u>\$ 2,599</u> | <u>\$ 849,717</u> | <u>\$ 8,325,498</u> | <u>\$ 3,366,738</u> | <u>\$ 14,751,899</u> |

See accompanying independent auditors' report.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2005

| | Special Revenue Funds | | | | | | Total Nonmajor Governmental Funds |
|--|---|--|---|---|--|---|--|
| | Employment and Training Fund | Occupational Safety and Health Training and Assistance Fund | Boiler/ Elevator Safety Fund | Special Unemployment Insurance Administration Fund | Nonwork Connected Disability Fund | Premium Supplementation Fund | |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Employment and training assessments | \$ 1,979,848 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1,979,848 |
| Other assessments | — | — | — | 575,162 | 5,723 | 1,648 | 582,533 |
| Total program revenues | 1,979,848 | — | — | 575,162 | 5,723 | 1,648 | 2,562,381 |
| Interest income | — | — | — | — | 221,409 | 96,457 | 317,866 |
| Total revenues | 1,979,848 | — | — | 575,162 | 227,132 | 98,105 | 2,880,247 |
| Expenditures: | | | | | | | |
| Full opportunity to work | 1,775,170 | — | — | — | — | — | 1,775,170 |
| Assistance in work related difficulties | — | — | — | 643,957 | 81,129 | 209,984 | 935,070 |
| Total expenditures | 1,775,170 | — | — | 643,957 | 81,129 | 209,984 | 2,710,240 |
| Excess (deficiency) of revenues over (under) expenditures | 204,678 | — | — | (68,795) | 146,003 | (111,879) | 170,007 |
| Fund balances: | | | | | | | |
| Beginning of year | 2,000,727 | 1,942 | 2,599 | 918,512 | 8,179,059 | 3,478,617 | 14,581,456 |
| End of year | \$ 2,205,405 | \$ 1,942 | \$ 2,599 | \$ 849,717 | \$ 8,325,062 | \$ 3,366,738 | \$ 14,751,463 |

See accompanying independent auditors' report.

SECTION IV

Compliance and Internal Control over Financial Reporting



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Director
Department of Labor and Industrial Relations
State of Hawaii:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Labor and Industrial Relations, State of Hawaii (the Department), as of and for the year ended June 30, 2005, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 10, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Department in a separate letter dated March 10, 2006.

This report is intended solely for the information and use of the Department's management, the U.S. Department of Labor, and other 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.

KPMG LLP

March 10, 2006

SECTION V

Compliance and Internal Control over Federal Awards



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Director
Department of Labor and Industrial Relations
State of Hawaii:

Compliance

We have audited the compliance of the Department of Labor and Industrial Relations, State of Hawaii (the Department), 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 Department'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 Department's management. Our responsibility is to express an opinion on the Department'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 Department'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 of the Department's compliance with those requirements.

In our opinion, the Department 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 05-01.

Internal Control over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department'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 the 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 reportable 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 caused by error or fraud 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 the Department's management, the U.S. Department of Labor, and other 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.

KPMG LLP

March 10, 2006

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Grant Number | Federal Expenditures |
|--|------------------------|---------------------|---------------------------------|
| U.S. Department of Agriculture: | | | |
| Emergency Food Assistance Cluster: | 10.568 | | |
| Emergency Food Assistance Program – Administrative Costs: | | | |
| Commodity Assistance Program | | 7HI810HI8 | \$ 59,385 |
| Commodity Assistance Program | | 7HI810HI8 | 77,290 |
| Subtotal CFDA No. 10.568 | | | <u>136,675</u> |
| Emergency Food Assistance Program – Food Commodities | 10.569 | 7HI810HI8 | <u>1,462,044</u> |
| Subtotal Emergency Food Assistance Program Cluster | | | <u>1,598,719</u> |
| Passed through from the State Department of Human Services: | | | |
| State Administrative Matching Grants for the Food Stamp Program: | 10.561 | | |
| DHS Food Stamps – Kauai 29c | | AGREEMENT | 29,974 |
| DHS Food Stamps – Kauai 29c | | AGREEMENT | 21,722 |
| DHS Food Stamps – Hilo 29c | | AGREEMENT | 27,184 |
| DHS Food Stamps – Kona 29c | | AGREEMENT | 21,682 |
| DHS Food Stamps – Hilo 29c | | AGREEMENT | 20,707 |
| DHS Food Stamps – Kona 29c | | AGREEMENT | 16,099 |
| Subtotal CFDA No. 10.561 | | | <u>137,368</u> |
| Seniors Farmers’ Market Nutrition Pilot Program | 10.576 | 8HI810082 | 496,509 |
| Seniors Farmers’ Market Nutrition Pilot Program | 10.576 | 8HI810082 | 75,715 |
| Subtotal CFDA No. 10.576 | | | <u>572,224</u> |
| Total U.S. Department of Agriculture | | | <u>2,308,311</u> |

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Grant Number | Federal Expenditures |
|--|------------------------|---------------------|---------------------------------|
| U.S. Department of Housing and Urban Development: | | | |
| Civil Rights Commission | 14.401 | FF209K989004 | \$ 64,741 |
| Total U.S. Department of Housing and Urban Development | | | <u>64,741</u> |
| U.S. Department of Labor: | | | |
| BLS Current Employment Statistics | 17.002 | W9J48015 | 38,600 |
| BLS Current Employment Statistics | | W9J58016 | 109,198 |
| BLS Local Area Unemployment Statistics | | W9J48015 | 23,515 |
| BLS Local Area Unemployment Statistics | | W9J58015 | 59,921 |
| BLS Occupational Employment Statistics | | W9J48015 | 41,150 |
| BLS Occupational Employment Statistics | | W9J58015 | 108,412 |
| BLS Employment and Wages Report | | W9J48015 | 60,746 |
| BLS Employment and Wages Report | | W9J58015 | 163,520 |
| BLS Mass Layoff Statistics | | W9J48015 | 7,206 |
| BLS Mass Layoff Statistics | | W9J58015 | 22,404 |
| BLS LAUS AAMC | | W9J48015 | 4,500 |
| Subtotal CFDA No. 17.002 | | | <u>639,172</u> |
| Occupational Safety and Health: | 17.005 | | |
| OSHA BLS Survey | | W9J48115 | 20,192 |
| OSHA BLS CFOI | | W9J48115 | 4,766 |
| OSHA BLS Survey | | W9J58115 | 65,098 |
| OSHA BLS CFOI | | W9J58115 | 10,392 |
| Subtotal CFDA No. 17.005 | | | <u>100,448</u> |
| Alien Labor Certification: | 17.203 | | |
| Alien Labor Certification | | ES-13050-03-55 | 64,616 |
| Alien Labor Certification | | ES-13992-04-55 | 56,361 |
| Subtotal CFDA No. 17.203 | | | <u>120,977</u> |

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Grant Number | Federal Expenditures |
|--|------------------------|---------------------|---------------------------------|
| Employment Service Cluster: | | | |
| Employment Service: | 17.207 | | |
| Employment Service Grant | | ES-130500355 | \$ 857,184 * |
| Employment Service Grant | | ES-14860-05-55 | 2,641,101 * |
| Employment Service One-Stop – LMI | | ES-130500355 | 190,920 * |
| Employment Service One-Stop – LMI | | ES-14860-05-55 | 246,917 * |
| Reemployment Services | | ES-13050-03-58 | 41,440 * |
| Reemployment Services | | ES-13050-04-58 | 223,758 * |
| Workforce Opportunities Tax Credit | | ES-130500355 | 48,363 * |
| Workforce Opportunities Tax Credit | | ES-13050-04-58 | 32,781 * |
| Work Incentive Grant | | WI-13249-03-60 | 532,895 * |
| Subtotal CFDA No. 17.207 | | | <u>4,815,359</u> * |
| Disabled Veterans' Outreach Program: | 17.801 | | |
| Disabled Veterans' Outreach Program | | E-9-5-4-5086 | 124,666 * |
| Disabled Veterans' Outreach Program | | E-9-5-5-5086 | 181,722 * |
| Subtotal CFDA No. 17.801 | | | <u>306,388</u> * |
| Local Veterans' Employment Representative Program: | 17.804 | | |
| Local Veterans' Employment Representative Program | | E-9-5-4-5086 | 184,354 * |
| Local Veterans' Employment Representative Program | | E-9-5-5-5086 | 267,188 * |
| Subtotal CFDA No. 17.804 | | | <u>451,542</u> * |
| Subtotal Employment Services Cluster | | | <u>5,573,289</u> * |

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Grant Number | Federal Expenditures |
|--|------------------------|---------------------|---------------------------------|
| Unemployment Insurance: | 17.225 | | |
| Unemployment Insurance Grants | | UI-11815-02-55 | \$ 3,098 * |
| Unemployment Insurance Grants | | UI-12634-03-55 | 383,797 * |
| Unemployment Insurance Grants | | UI-13543-04-55 | 3,792,008 * |
| Unemployment Insurance Grants | | UI-14430-05-55 | 9,108,508 * |
| Unemployment Insurance Disaster Assistance | | P.L.97-300 | (228) * |
| Unemployment Insurance – TEUC | | UI-12634-03-55 | 83,091 * |
| Unemployment Insurance – TEUC | | UI-13543-04-55 | 41,194 * |
| Unemployment Insurance – Parent Locator | | UI-13543-04-55 | 37,681 * |
| Unemployment Insurance – Trade Benefits | | UI-13543-05-55 | 142,821 * |
| Subtotal CFDA No. 17.225 | | | <u>13,591,970</u> * |
| Senior Community Service Employment Program Grants: | 17.235 | | |
| Senior Community Services Employment Program (SCSEP) | | AD-14082-04-60 | 1,811,189 |
| Senior Community Services Employment Program (SCSEP) | | AD-13149-03-55 | 27,420 |
| Subtotal CFDA No. 17.235 | | | <u>1,838,609</u> |
| Trade Adjustment Assistance – Trade Training | 17.245 | TA-13490-04-55 | <u>62,025</u> |
| Workforce Investment Act Cluster: | | | |
| Adult Program | 17.258 | AA-12007-02-50 | 2,438 |
| Adult Program | | AA-12921-03-50 | 1,974,155 |
| Adult Program | | AA-13794-04-50 | 1,694,450 |
| Subtotal CFDA No. 17.258 | | | <u>3,671,043</u> |
| Youth Program | 17.259 | AA-13794-04-50 | 836,137 |
| Youth Program | | AA-12921-03-50 | 2,003,570 |
| Youth Program | | AA-12007-02-50 | 6,435 |
| Subtotal CFDA No. 17.259 | | | <u>2,846,142</u> |

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Grant Number | Federal Expenditures |
|--|------------------------|---------------------|---------------------------------|
| WIA National Emergency Grant HCTC – Dislocated Workers Program | 17.260 | EM-13419-03-60 | \$ 6,940 |
| WIA National Emergency Grant – Dislocated Workers Program | | EM-13419-03-60 | 264,850 |
| Dislocated Workers Program | | AA-12921-03-50 | 1,359,602 |
| Dislocated Workers Program | | AA-13794-04-50 | 1,134,572 |
| Subtotal CFDA No. 17.260 | | | <u>2,765,964</u> |
| Statewide activities: | 17.000 | | |
| Statewide activities | | AA-13794-04-50 | 800,494 |
| Local Admin | | | 427,435 |
| Rapid Response | | | 47,810 |
| Statewide activities | | AA-12921-03-50 | 590,245 |
| Local Admin | | | 590,160 |
| Rapid Response | | | 12,139 |
| Statewide activities | | AA-12007-02-50 | 310,195 |
| Local Admin | | | 39,519 |
| Subtotal CFDA No. 17.000 | | | <u>2,817,997</u> |
| Subtotal Workforce Investment Act Cluster | | | <u>12,101,146</u> |
| Occupational Safety and Health Administration: | 17.503 | | |
| OSHA 23G | | 60F4-00 | 500,872 |
| OSHA 23G | | 60F5-00 | 1,017,368 |
| Subtotal CFDA No. 17.503 | | | <u>1,518,240</u> |
| OSHA 7(c)1 Survey | 17.504 | E9F4-0992 | 5,496 |
| OSHA 7(c)1 Survey | 17.504 | E9F5-0992 | 5,297 |
| OSHA 21D | 17.504 | E9F4-3792 | 170,473 |
| OSHA 21D | 17.504 | E9F5-3792 | 286,026 |
| Subtotal CFDA No. 17.504 | | | <u>467,292</u> |

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Grant Number | Federal Expenditures |
|--|------------------------|---------------------|---------------------------------|
| Veterans' Employment Program: | 17.802 | | |
| Veterans' Workforce Investment Program | | E-9-5-2-0019 | \$ 22,615 |
| Veterans' Workforce Investment Program | | E-9-5-2-0019 | 66,729 |
| Subtotal CFDA No. 17.802 | | | <u>89,344</u> |
| Total U.S. Department of Labor | | | <u>36,102,512</u> |
| Equal Employment Opportunity Commission: | | | |
| Equal Employment Opportunity Commission | 30.002 | 2/CFPMD/0074 | 40,765 |
| Equal Employment Opportunity Commission | 30.002 | 3FPSP0246 | 140,150 |
| Equal Employment Opportunity Commission | 30.002 | 3FPSP0246/001 | 126,639 |
| Total Equal Employment Opportunity Commission | | | <u>307,554</u> |
| U.S. Department of Energy: | | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | FG51-03R021429 | 155,117 |
| Total U.S. Department of Energy | | | <u>155,117</u> |
| U.S. Department of Education: | | | |
| Career Resource Network Grant | 84.346 | V346A000054-02B | 68,448 |
| Career Resource Network Grant | 84.346 | V346A000054-03 | 44,413 |
| Total U.S. Department of Education | | | <u>112,861</u> |

DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

STATE OF HAWAII

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Grant Number | Federal Expenditures |
|--|------------------------|---------------------|---------------------------------|
| U.S. Department of Health and Human Services: | | | |
| Passed through from the State Department of Human Services: | | | |
| First-to-Work | 93.558 | 02-BESSD-1072 | \$ 777,906 |
| Refugee and Entrant Assistance – State Administered Programs: | 93.566 | | |
| Cash, Medical, and Administration | | G04AAHI9100 | 44,033 |
| Cash, Medical, and Administration | | G05AAHI9100 | 4,085 |
| Social Services | | G04AAHI9110 | 24,874 |
| Social Services | | G05AAHI9110 | 25,847 |
| Subtotal CFDA No. 93.566 | | | <u>98,839</u> |
| Community Services Block Grant: | | | |
| Community Services Block Grant Program | 93.569 | G04B1HICOSR | 1,542,477 |
| Community Services Block Grant Program | | G05B1HICOSR | 2,023,180 |
| Subtotal CFDA No. 93.569 | | | <u>3,565,657</u> |
| Community Food and Nutrition Program | 93.571 | G03B1HICOSR | 6,732 |
| Community Food and Nutrition Program | | G04B3HICOSR | 4,376 |
| Subtotal CFDA No. 93.571 | | | <u>11,108</u> |
| Hawaii Family Support | 93.631 | 90DN0153/01 | 91,781 |
| Total U.S. Department of Health and Human Services | | | <u>4,545,291</u> |
| Total Expenditures of Federal Awards | | | \$ <u><u>43,596,387</u></u> |

* Denotes major program as defined by OMB Circular A-133

See accompanying independent auditors' report.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

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 Labor and Industrial Relations, State of Hawaii (the Department), 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 basic financial statements.

(2) Subrecipients

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

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Amount Provided to Subrecipients</u> |
|---|------------------------|---|
| U.S. Department of Agriculture: | | |
| Emergency Food Assistance Cluster | 10.569 | \$ 1,462,044 |
| Seniors Farmers' Market Nutrition Pilot Program | 10.576 | 572,224 |
| Total U.S. Department of Agriculture | | <u>2,034,268</u> |
| U.S. Department of Labor: | | |
| Senior Community Service Employment Program Grants | 17.235 | <u>1,695,616</u> |
| Workforce Investment Act Cluster: | | |
| Adult Programs | 17.258 | 3,671,043 |
| Youth Programs | 17.259 | 2,846,142 |
| Dislocated Workers Programs | 17.260 | 2,494,174 |
| Statewide Activities | 17.000 | 167,143 |
| Local Admin | 17.000 | 1,057,114 |
| | | <u>10,235,616</u> |
| Total U.S. Department of Labor | | <u>11,931,232</u> |
| U.S. Department of Energy: | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | <u>146,004</u> |
| U.S. Department of Health and Human Services: | | |
| Refugee and Entrant Assistance – State Administered Programs: | | |
| Cash, Medical, and Administration | 93.566 | 29,816 |
| Social Services | 93.566 | 50,721 |
| | | <u>80,537</u> |
| Community Services Block Grants | 93.569 | 3,418,454 |
| Community Food and Nutrition Programs | 93.571 | 11,108 |
| | | <u>3,429,562</u> |
| Total U.S. Department of Health and Human Services | | <u>3,510,099</u> |
| Total provided to subrecipients | | <u>\$ 17,621,603</u> |

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

Schedule of Findings and Questioned Costs
Year ended June 30, 2005

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: **None reported**

Material weaknesses: **None noted**
- (c) Noncompliance which is material to the financial statements: **None noted**
- (d) Reportable conditions in internal control over major programs: **None reported**

Material weaknesses: **None noted**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes, see Finding 05-01**
- (g) Major programs:

U.S. Department of Labor:

Employment Service Cluster – CFDA Nos. 17.207, 17.801, and 17.804

Unemployment Insurance – CFDA No. 17.225

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,307,892**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Basic Financial Statements which are required To Be Reported in Accordance with *Government Auditing Standards*

None noted

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

Schedule of Findings and Questioned Costs
Year ended June 30, 2005

(3) Findings and Questioned Costs Relating to Federal Awards

| Findings/Noncompliance | Questioned costs |
|---|-------------------------|
| Finding 05-01 – Matching, Level of Effort, Earmarking | \$ 165,535 |
| Federal Agency: U.S. Department of Labor | |
| CFDA Number and Title: 17.207 – Employment Service Cluster – Employment Service Grant | |
| Award Number: ES-130500355 | |
| Award Year: July 1, 2003 – June 30, 2006 | |

Pursuant to section 7(b) of the Wagner-Peyser Act, as amended by the Workforce Investment Act of 1998 (Public Law 105-220) (the Act), the Department is required to reserve ten percent of its Wagner-Peyser Act allotment to provide:

- (1) Performance incentives for public employment service offices and programs, consistent with performance standards established by the Secretary, taking into account direct or indirect placements (including those resulting from self-directed job search or group job search activities assisted by such offices or programs), wages on entered employment, retention, and other appropriate factors;
- (2) Services for groups with special needs, carried out pursuant to joint agreements between the employment service and the appropriate local workforce investment board and chief elected official or officials or other public agencies or private nonprofit organizations; and
- (3) The extra costs of exemplary models for delivering services of the types described in subsection (a) of the Wagner-Peyser Act.

In reviewing the Department’s final Financial Status Report (Office of Management and Budget Standard Form 269) dated April 26, 2005, we noted that the Department expended \$2,987,670 of federal funds under this agreement as of March 31, 2005. Accordingly, ten percent of these funds or \$298,767 should have been expended for activities prescribed by section 7(b) of the Act. However, the Department could only substantiate expenditures of \$133,232 for activities prescribed by section 7(b) of the Act, resulting in questioned costs of \$165,535.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

Schedule of Findings and Questioned Costs
Year ended June 30, 2005

| Findings/Noncompliance | Questioned costs |
|---|-------------------------|
| <p>Recommendation</p> <p>We recommend that the Department monitor and document its expenditures related to activities prescribed by section 7(b) of the Act to ensure compliance with applicable regulations related to earmarking.</p> <p>Views of Responsible Officials and Planned Corrective Actions</p> <p>The Department concurs with the finding and recommendation. Because the grant period for these funds has not yet expired, the Department will document its compliance with the earmarking provisions of the Act, and revise its final Financial Status Report to the U.S. Department of Labor, Employment and Training Administration. The fiscal unit of Region 6, U.S. Department of Labor, Employment and Training Administration, verified that the final Financial Status Report may be revised during the grant period. The Department will monitor and document its expenditures related to activities prescribed by section 7(b) of the Act to ensure compliance with applicable regulations related to earmarking.</p> | |