



**Office of the Auditor  
State of Hawaii**

Financial Statements  
(With Independent Auditors' Report Thereon)

June 30, 2024

**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Financial Statements

June 30, 2024

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**PART I**

**INTRODUCTION SECTION**

December 23, 2024

The Auditor  
State of Hawaii:

We have completed our audit of the financial statements of the Office of the Auditor, State of Hawaii (the Agency), as of and for the year ended June 30, 2024. We transmit herewith our independent auditors' report containing our opinions on those financial statements and our independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

### **Audit Objectives**

The objectives of the audit were as follows:

1. To provide opinions on the fair presentation of the Agency's financial statements in accordance with accounting principles generally accepted in the United States of America.
2. To consider the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements.
3. To perform tests of the Agency's 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.

### **Scope of Audit**

We performed an audit of the Agency's financial statements as of and for the year ended June 30, 2024, 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.

As part of the audit of the Agency's financial statements, we considered the Agency's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements. We also performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements.

## Organization of Report

This report has been organized into three parts as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.
2. The Financial Section includes management's discussion and analysis – unaudited, the Agency's financial statements and the related notes as of and for the year ended June 30, 2024, and our independent auditors' report thereon.
3. The Internal Control and Compliance Section contains our independent auditors' report on the Agency's 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*.

\* \* \* \* \*

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by the personnel of the Office of the Auditor during the course of our engagement. Should you wish to discuss any of the matters contained herein, we will be pleased to meet with you at your convenience.

Very truly yours,

*KKDLY LLC*

**PART II**

**FINANCIAL SECTION**

## Independent Auditors' Report

The Auditor  
State of Hawaii:

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the financial statements of the governmental activities and the general fund of the Office of the Auditor, State of Hawaii (the Agency), as of and for the year ended June 30, 2024, and the related notes to financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Agency as of June 30, 2024, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

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 (*Government Auditing Standards*). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Emphasis of Matter*

##### *Relationship to the State of Hawaii*

As discussed in Note 1, the financial statements of the Agency are intended to present the financial position, the changes in financial position, and budgetary comparison of only that portion of the governmental activities and the general fund of the State of Hawaii that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2024, and the changes in its financial position and budgetary comparison for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2024, on our consideration of the Agency’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 solely 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 effectiveness of the Agency’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency’s internal control over financial reporting and compliance.

***KKDL Y LLC***

Honolulu, Hawaii  
December 23, 2024

**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Management's Discussion and Analysis – Unaudited

June 30, 2024

This Management's Discussion and Analysis provides an overview of the financial activities of the Office of the Auditor, State of Hawaii (the Agency), for the fiscal year ended June 30, 2024. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto, which follow this section.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Agency's financial statements. The Agency's financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. These components are described as follows:

*Government-Wide Financial Statements*

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

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

The Statement of Activities presents information showing how the Agency's net position changed during the fiscal year. This statement shows the extent to which the Agency's activities depend on state appropriations for support.

The Statement of Net Position can be found in the Statement of Net Position and Governmental Fund Balance Sheet on page 12 of this report, and the Statement of Activities can be found in the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance on page 13 of this report.

*Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency maintains a single governmental fund, its general fund.

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

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Management's Discussion and Analysis – Unaudited

June 30, 2024

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities of the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions.

The governmental fund financial statements can be found in the Statement of Net Position and Governmental Fund Balance Sheet on page 12 of this report, and in the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance on page 13 of this report.

Both the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental fund financial statements are followed by the Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund, which compares the general fund's original and final budget and actual amounts prepared on a budgetary basis. The Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund can be found on page 14 of this report. A reconciliation between the general fund revenues and expenditures prepared in accordance with the accounting principles generally accepted in the United States of America compared to the general fund revenues and expenditures prepared for budgetary purposes can be found on page 15 of this report.

*Notes to Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to financial statements can be found on pages 16 through 37 of this report.

**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Management's Discussion and Analysis – Unaudited

June 30, 2024

**Condensed Financial Information**

The following are summaries from the Agency's government-wide financial statements as of and for the years ended June 30, 2024 and 2023.

**Table 1  
Condensed Statements of Net Position**

	<u>2024</u>	<u>2023</u>
<b>Assets:</b>		
Current assets	\$ 13,110,227	\$ 12,299,838
Capital assets, net	<u>40,663</u>	<u>45,360</u>
Total assets	<u>13,150,890</u>	<u>12,345,198</u>
<b>Liabilities:</b>		
Current liabilities	632,366	256,708
Long-term liabilities	<u>560,429</u>	<u>517,700</u>
Total liabilities	<u>1,192,795</u>	<u>774,408</u>
<b>Net position:</b>		
Net investment in capital assets	12,971	10,949
Unrestricted	<u>11,945,124</u>	<u>11,559,841</u>
Total net position	<u>\$ 11,958,095</u>	<u>\$ 11,570,790</u>

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STATE OF HAWAII**

Management's Discussion and Analysis – Unaudited

June 30, 2024

**Table 2  
Condensed Statements of Activities**

	<u>Governmental Activities</u>	
	<u>2024</u>	<u>2023</u>
<b>Revenues:</b>		
State allotted appropriations, net	\$ 5,465,152	\$ 5,144,247
Reimbursements	2,897,344	3,152,610
Other	<u>2,104,007</u>	<u>1,393,063</u>
Total revenues	<u>10,466,503</u>	<u>9,689,920</u>
<b>Expenses:</b>		
Current:		
Contractual services	5,580,265	5,739,397
Personal services	4,390,352	3,314,577
Other	81,932	76,936
Capital outlays:		
Equipment and furniture	<u>26,649</u>	<u>89,025</u>
Total expenses	<u>10,079,198</u>	<u>9,219,935</u>
Change in net position	387,305	469,985
<b>Beginning Net Position</b>	<u>11,570,790</u>	<u>11,100,805</u>
<b>Ending Net Position</b>	<u>\$ 11,958,095</u>	<u>\$ 11,570,790</u>

**Government-Wide Financial Analysis**

*Overall Financial Position*

The assets of the Agency exceeded its liabilities by \$11,958,095 and \$11,570,790 as of June 30, 2024 and 2023, respectively. The Agency's government-wide net position increased by \$387,305 or 3.3% during the year ended June 30, 2024. Substantially all of the Agency's net position at June 30, 2024 and 2023 was unrestricted and may be used to meet the Agency's ongoing operations.

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Management's Discussion and Analysis – Unaudited

June 30, 2024

*Results of Operations*

State allotted appropriations, net totaled \$5,465,152, which represents an increase of \$320,905 or 6.2% as compared to the prior fiscal year.

Total expenses amounted to \$10,079,198, which represents an increase of \$859,263 or 9.3% as compared to the prior fiscal year. This was primarily attributable to an increase in personal services expense of \$1,075,775 or 32.5%, offset by a decrease in contractual services expense of \$159,132 or 2.8%.

**Governmental Fund – General Fund Financial Analysis**

The focus of the Agency's governmental fund, which is its general fund, is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in evaluating the Agency's financing requirements. In particular, unreserved fund balances may serve as a useful measure of the Agency's net resources available for spending next year.

At the end of the fiscal year, the Agency's general fund reported a fund balance of \$12,477,861, an increase of \$434,731 or 3.6% from the prior fiscal year. \$6,391,914 of the fund balance was assigned, \$68,106 of the fund balance was committed, \$10,933 of the fund balance was nonspendable, and \$6,006,908 of the fund balance was unassigned.

**General Fund Budgetary Highlights**

The Agency's general fund budget for the year ended June 30, 2024 remained the same from the original to the final budget.

Actual contractual services on a budgetary basis was less than the budgeted amount by \$288,916 or 4.3%. The difference was primarily attributable to the cost of consultant contracts actually incurred during the year.

Actual personal services on a budgetary basis was less than the budgeted amount by \$559,752 or 18.6%. The difference was primarily attributable to vacant staff positions.

**Capital Assets and Long-Term Liabilities**

At June 30, 2024, the Agency had capital assets, net of accumulated depreciation and amortization, of \$40,663. There was a decrease in capital assets of \$4,697 or 10.4% from the prior fiscal year, which was primarily attributable to current year depreciation and amortization expense of \$13,040, offset by the addition of equipment and furniture of \$8,343 in the current year. Further details can be found in Note 7 to the financial statements.

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Management's Discussion and Analysis – Unaudited

June 30, 2024

At June 30, 2024, the Agency's long-term liabilities amounted to \$560,429, an increase of \$42,729 or 8.3% from the prior fiscal year. Further details can be found in Note 8 to the financial statements.

**Currently Known Facts and Conditions**

For the fiscal year 2024-2025, the Legislature increased the Agency's operating budget by \$82,436 or 2.48%. No other events or factors that may impact future periods are anticipated at this time.

**Request for Information**

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Auditor, Office of the Auditor, State of Hawaii, 465 South King Street, Room 500, Honolulu, Hawaii, 96813.

**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Statement of Net Position and Governmental Fund Balance Sheet

June 30, 2024

	<b>General Fund</b>	<b>Adjustments (Note 3)</b>	<b>Statement of Net Position</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 13,040,503	\$ -	\$ 13,040,503
Reimbursements receivable from State of Hawaii departments and agencies, net	18,000	-	18,000
Interest receivable	40,791	-	40,791
Prepaid expenses	10,933	-	10,933
Capital assets, net	-	40,663	40,663
Total assets	\$ 13,110,227	40,663	13,150,890
 <b>Liabilities:</b>			
Vouchers and contracts payable	\$ 183,766	-	183,766
Accrued wages and employee benefits payable	446,600	-	446,600
Due to State of Hawaii	2,000	-	2,000
Long-term liabilities:			
Due within one year	-	170,207	170,207
Due after one year	-	390,222	390,222
Total liabilities	632,366	560,429	1,192,795
 <b>Fund Balance/Net Position:</b>			
Fund balance:			
Assigned	6,391,914	(6,391,914)	-
Committed	68,106	(68,106)	-
Nonspendable	10,933	(10,933)	-
Unassigned	6,006,908	(6,006,908)	-
Total fund balance	12,477,861	(12,477,861)	-
Total liabilities and fund balance	\$ 13,110,227		
 Net position:			
Net investment in capital assets		\$ 12,971	\$ 12,971
Unrestricted		11,945,124	11,945,124
Total net position		\$ 11,958,095	\$ 11,958,095

See accompanying notes to financial statements.



**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Statement of Activities and Governmental Fund Revenues, Expenditures, and  
Changes in Fund Balance

Year Ended June 30, 2024

	<b>General Fund</b>	<b>Adjustments (Note 4)</b>	<b>Statement of Activities</b>
<b>Revenues:</b>			
State allotted appropriations, net	\$ 5,465,152	\$ -	\$ 5,465,152
Reimbursements	2,897,344	-	2,897,344
State-provided payroll fringe benefits	1,642,174	-	1,642,174
Interest	461,833	-	461,833
Total revenues	<u>10,466,503</u>	<u>-</u>	<u>10,466,503</u>
<b>Expenditures/Expenses:</b>			
Current:			
Contractual services	5,580,265	-	5,580,265
Personal services	4,340,904	49,448	4,390,352
Dues and subscriptions	16,765	-	16,765
Telephone	13,369	-	13,369
Depreciation and amortization	-	13,040	13,040
Equipment rental and maintenance	20,818	(7,929)	12,889
Travel and subsistence, out-of-state	11,987	-	11,987
Training	4,780	-	4,780
Office supplies and postage	2,556	-	2,556
Other	5,336	1,210	6,546
Capital outlays:			
Equipment and furniture	34,992	(8,343)	26,649
Total expenditures/expenses	<u>10,031,772</u>	<u>47,426</u>	<u>10,079,198</u>
	<u>434,731</u>	<u>(47,426)</u>	<u>387,305</u>
Net change in fund balance	434,731	(434,731)	-
Change in net position	-	387,305	387,305
<b>Fund Balance/Net Position:</b>			
Beginning of the year	<u>12,043,130</u>	<u>(472,340)</u>	<u>11,570,790</u>
End of the year	<u>\$ 12,477,861</u>	<u>\$ (519,766)</u>	<u>\$ 11,958,095</u>

See accompanying notes to financial statements.

**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Statement of Revenues and Expenditures — Budget and Actual (Budgetary Basis) — General Fund

Year Ended June 30, 2024

	<b>Original and Final Budget</b>	<b>Actual on Budgetary Basis</b>	<b>Variance Positive (Negative)</b>
<b>Budgetary Balance at July 1, 2023</b>	\$ 1,022,693	\$ 1,022,693	\$ -
<b>Revenues:</b>			
State appropriations	6,342,470	5,496,380	(846,090)
Reimbursements	2,477,307	3,046,157	568,850
Interest	-	421,042	421,042
Total revenues	8,819,777	8,963,579	143,802
<b>Expenditures:</b>			
Current:			
Contractual services	6,644,916	6,356,000	288,916
Personal services	3,009,470	2,449,718	559,752
Office supplies and postage	47,500	65,182	(17,682)
Travel and subsistence, out-of-state	42,000	15,887	26,113
Equipment rental and maintenance	20,000	19,590	410
Training	20,000	4,780	15,220
Printing	5,000	-	5,000
Travel and subsistence, in-state	4,800	354	4,446
Other	2,000	4,966	(2,966)
Capital outlays:			
Equipment, furniture, and books	46,784	11,797	34,987
Total expenditures	9,842,470	8,928,274	914,196
<b>Budgetary Balance at June 30, 2024</b>	\$ -	\$ 1,057,998	\$ 1,057,998

See accompanying notes to financial statements.

**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Budgetary Reconciliation — General Fund

Year Ended June 30, 2024

**Revenues:**

Actual revenues on a budgetary basis, net of current year lapsed appropriation	\$ 8,963,579
Differences between budgetary basis and GAAP basis:	
On-behalf fringe benefits	1,642,174
Prior year lapsed appropriations	(31,228)
Interest income deposited in prior year appropriations	38,937
Current year reimbursements receivable from State of Hawaii departments and agencies, net	18,000
Current year interest receivable	40,791
Prior year reimbursements receivable from State of Hawaii departments and agencies	(166,813)
Prior year interest receivable	<u>(38,937)</u>
Total revenues reported in the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	<u><u>\$ 10,466,503</u></u>

**Expenditures:**

Actual expenditures on a budgetary basis	\$ 8,928,274
Differences between budgetary basis and GAAP basis:	
Current year encumbrances	(5,884,771)
Expenditures for liquidation of prior fiscal year encumbrances	5,144,068
On-behalf fringe benefits	1,642,174
Payment of prior year expenditures	(237,726)
Expenditures paid with future appropriations	450,686
Future expenditures paid with current appropriations	<u>(10,933)</u>
Total expenditures reported in the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	<u><u>\$ 10,031,772</u></u>

See accompanying notes to financial statements.

**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2024

**1. Financial Reporting Entity**

The Office of the Auditor (the Agency) is a governmental unit of the State of Hawaii (the State) Legislative Branch and conducts post-audits of the transactions, accounts, programs and performance of all departments, offices, and agencies of the State and its political subdivisions.

The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually, which includes the Agency's financial activities. The Agency utilizes office space in a State building and, accordingly, no expenditure is recorded for such space.

The accompanying financial statements present only the activities of the Agency and are not intended to present fairly the financial position of the governmental activities and the general fund of the State, and the respective changes in financial position and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The financial statements of the Agency have been prepared in conformity with GAAP. The Governmental Accounting Standards Board (the GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The government-wide financial statements report all assets, liabilities, net position, and activities of the Agency as a whole. They include all funds of the reporting entity except for fiduciary funds.

Net position is restricted when constraints placed on it are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, it is generally the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund financial statements are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each accounting fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The Agency uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

**OFFICE OF THE AUDITOR  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2024

***Governmental Funds Types***

The Agency has only one governmental fund, which is the general fund, and no proprietary fund operations.

The general fund is used to account for all of the Agency's financial resources. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

***Measurement Focus and Basis of Accounting***

*Government-wide financial statements* - Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred or economic assets used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In addition, amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reported as an expenditure. Amounts paid to reduce long-term indebtedness of the reporting government agency are reported as a reduction of the related liability, rather than as an expenditure.

*Governmental fund financial statements* - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available, usually when the appropriations are allotted. Expenditures are generally recognized when the related liability is incurred, except for accumulated unpaid vacation, which is recognized as expenditures when payable from expendable available resources.

Amounts expended to acquire capital assets are recorded as expenditures in the fiscal year that resources were expended, rather than as fund assets. Expenditures related to compensated absences are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The Agency records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities.

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Governmental entities with a single governmental program are allowed to present combined government-wide and fund financial statements. Thus, the financial statements of the Agency are composed of the following:

- Statement of Net Position and Governmental Fund Balance Sheet
- Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance
- Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund
- Budgetary Reconciliation – General Fund
- Notes to Financial Statements

***Appropriations***

Appropriations represent the authorizations granted by the State Legislature that permit a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, with the exception of the State appropriations made to the Audit Revolving Fund, which do not lapse.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash in bank and amounts held in State Treasury as discussed in Note 6. The State's investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP.

***Fair Value Measurements***

The Agency measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value, as follows:

*Level 1* - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2* - Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

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*Level 3* - Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

***Reimbursements Receivable and Deferred Revenue***

The Agency pays for the audit fees incurred by departments, offices, agencies and political subdivisions of the State of Hawaii and are reimbursed by them based on a predetermined percentage of the audit fees. All receivables are reported net of estimated uncollectible amounts.

Reimbursements for audit fees received in advance of services provided are reported as deferred revenue.

***Capital Assets***

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

*Government-Wide Financial Statements*

The Agency records the acquisition of capital assets, costing \$5,000 or more, which only includes furniture and equipment. Depreciation of furniture and equipment is computed using the straight-line method over 7 years.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the Statement of Activities.

Capital assets also consist of right-to-use lease assets (lease assets). Refer to *Leases* section below for the Agency's accounting policy for lease assets and related amortization.

*Fund Financial Statements*

Capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition.

***Leases – As Lessee***

The Agency recognizes lease liabilities and lease assets in the government-wide financial statements for leases with an initial, individual value of \$100,000 or more for land and building

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leases and \$25,000 or more for equipment and others, with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Agency initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the Agency has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the lease term.

Key estimates and judgments related to leases include how the Agency determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Agency uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Agency generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the Agency is reasonably certain to exercise.

The Agency monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported in capital assets (see Note 7) and lease liabilities are reported with long-term liabilities (see Note 8) on the Statement of Net Position.

***Subscription-Based Information Technology Arrangements***

The Agency recognizes a subscription liability and a right-to-use subscription asset in the government-wide financial statements for subscription liabilities with an initial, individual value of \$500,000 or more with a subscription term greater than one year. Variable payments based on future performance of the Agency, usage of the underlying information technology asset, or number of user seats are not included in the measurement of the subscription liability. The



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Agency does not have material subscription-based information technology arrangements as of and for the year ended June 30, 2024.

***Compensated Absences***

Employees are permitted to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment.

In the government-wide financial statements, vacation pay is accrued when the obligation is incurred. The fund financial statements report an accrued vacation liability only when vacation pay is due and payable in the current period.

***Fund Balances***

In the governmental fund financial statements, fund balances are classified using a hierarchy based on the extent to which the Agency is bound to follow constraints on the specific purposes for which amounts in the funds may be spent.

Fund balances are classified as follows:

*Nonspendable* - Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

*Restricted* - Restricted fund balances are restricted to specific purposes which are usually imposed by external parties such as grantors, contributors, or laws or regulations of other governments. The Agency has no restricted fund balances.

*Committed* - Committed fund balances are amounts that can only be used for specific purposes pursuant to formal action of the State Legislature.

*Assigned* - Assigned fund balance includes amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted nor committed. The State Legislature authorizes the amounts to specific purposes through the budgetary process. Assigned amounts within the general fund include non-liquidated encumbrances at year end that are carried forward to the next fiscal year.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds, and that has not been restricted or assigned to specific purposes within the general fund.

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***Risk Management***

The Agency is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers' compensation; and acts of terrorism. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss is reasonably estimable.

***Deferred Compensation Plan***

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

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

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***Recently Issued Accounting Pronouncements***

*GASB Statement No. 99*

The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this statement are effective immediately while other requirements are effective for reporting periods beginning after June 15, 2022 and June 15, 2023, respectively. The requirements of this statement did not have a material impact on the Agency's financial statements.

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*GASB Statement No. 100*

The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement were effective for the Agency's fiscal year ended June 30, 2024 and did not have a material effect on the Agency's financial statements.

*GASB Statement No. 101*

The GASB issued Statement No. 101, *Compensated Absences*. The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this statement are effective for reporting periods beginning after December 15, 2023. The Agency is currently evaluating the impact that this statement will have on its financial statements.

*GASB Statement No. 102*

The GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of the statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this statement are effective for reporting periods beginning after June 15, 2024. The Agency is currently evaluating the impact that this statement will have on its financial statements.

*GASB Statement No. 103*

The GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this statement are effective for reporting periods beginning after June 15, 2025. The Agency is currently evaluating the impact that this statement will have on its financial statements.

*GASB Statement No. 104*

The GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this statement is to improve users of government financial statements with essential information about certain types of capital assets. The requirements of this statement are effective for reporting periods beginning after June 15, 2025. The Agency is currently evaluating the impact that this statement will have on its financial statements.

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**3. Explanation of Differences Between the Governmental Fund Balance Sheet and Statement of Net Position**

The “total fund balance” reported in the Agency’s Governmental Fund Balance Sheet of \$12,477,861 differs from the “total net position” of governmental activities of \$11,958,095 reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position and the current financial resources focus of the Governmental Fund Balance Sheet.

***Capital Assets***

When equipment, furniture, and lease assets that are to be used in governmental activities are purchased, the costs of those activities are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets in excess of \$5,000 among the assets of the Agency as a whole. Capital assets, net of accumulated depreciation and amortization, amounted to \$40,663 at June 30, 2024.

***Long-Term Liabilities***

The long-term liabilities applicable to the Agency’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liability. The liabilities for compensated absences and leases (both current and long-term) are reported in the Statement of Net Position. The balance of long-term liabilities at June 30, 2024, was \$560,429.

**4. Explanation of Differences Between the Governmental Fund Operating Statement and the Statement of Activities**

The “net change in fund balance” reported in the Agency’s Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance of \$434,731 differs from the “change in net position” for governmental activities of \$387,305 reported in the Statement of Activities. The difference primarily results from the long-term economic focus of the Statement of Activities and the current financial resources focus of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance.

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***Capital Assets***

When capital assets that are to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in the governmental fund. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation and amortization expense. As a result, fund balance decreases by the amount of financial resources expended, whereas, net position decreases by the amount of depreciation and amortization expense charged for the fiscal year. There was a net decrease in capital assets of \$4,697 during the year ended June 30, 2024, due to current year depreciation and amortization expense, offset by the addition of equipment and furniture.

***Long-Term Liabilities***

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. For the Agency, this difference is due to a net adjustment resulting from an increase in compensated absences of \$49,448, offset by a decrease in lease payable of \$6,719.

**5. Budgeting and Budgetary Control**

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues and budgeted expenditures in the Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations. The Audit Revolving Fund is allowed to carry over unused funds to the subsequent fiscal year.

For purposes of budgeting, the Agency's budgetary fund structure and accounting principles differ from those utilized to present the general fund financial statements in conformity with GAAP. The Agency's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to the encumbrance of purchase orders and contract obligations. These differences represent departures from GAAP. The differences between the budgetary amounts and the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2024, are further explained in the Budgetary Reconciliation – General Fund.

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**6. Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2024, consisted of amounts held in State Treasury and cash in bank at June 30, 2024:

Amounts held in State Treasury	\$ 13,038,503
Cash in bank	<u>2,000</u>
Total cash and cash equivalents	<u><u>\$ 13,040,503</u></u>

***Amounts Held in State Treasury***

The Director of Finance of the Department of Budget and Finance, State of Hawaii, is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the pool participants based upon their equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

At June 30, 2024, amounts held in State Treasury by the Agency totaled \$13,038,503. The amounts held in State Treasury reported in the accompanying Statement of Net Position and Governmental Fund Balance Sheet reflects the Agency's relative position in the State's investment pool based upon the average monthly investment balance of each participant in the investment pool.

The State requires that depository banks pledge, as collateral, government securities held in the name of the State for deposits, not covered by federal deposit insurance.

GAAP requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity, and custodian to determine the level of interest rate, credit, and custodial risk assumed by the Agency. However, as these funds are held in the State investment pool, the Agency does not manage these investments and the types of investments, and related interest rate, credit, and custodial risks are not determinable at the Agency's level. The risk disclosures and fair value leveling table of the State's investment pool are included in the State's Annual Comprehensive Financial Report (ACFR), which may be obtained from the Department of Accounting and General Services' website: <http://ags.hawaii.gov/accounting/annual-financial-reports>.

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**7. Capital Assets**

The changes in capital assets during the year ended June 30, 2024 were as follows:

	<b>Balance July 1, 2023</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2024</b>
Governmental activities:				
Capital assets being depreciated:				
Equipment and furniture	\$ 58,955	\$ 8,343	\$ -	\$ 67,298
Less accumulated depreciation	(47,752)	(5,725)	-	(53,477)
Lease asset:				
Equipment	36,595	-	-	36,595
Less accumulated amortization	(2,438)	(7,315)	-	(9,753)
Capital assets, net	<u>\$ 45,360</u>	<u>\$ (4,697)</u>	<u>\$ -</u>	<u>\$ 40,663</u>

**8. Long-Term Liabilities**

The activities for long-term liabilities during the year ended June 30, 2024 were as follows:

	<b>Balance June 30, 2023</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2024</b>	<b>Due Within One Year</b>
Compensated absences	\$ 483,289	\$ 231,681	\$ (182,233)	\$ 532,737	\$ 163,152
Lease payable	34,411	-	(6,719)	27,692	7,055
	<u>\$ 517,700</u>	<u>\$ 231,681</u>	<u>\$ (188,952)</u>	<u>\$ 560,429</u>	<u>\$ 170,207</u>

The compensated absences liability has been paid primarily by the general fund in the past.

The Agency entered into a five-year lease for the use of office equipment expiring March 2028. The calculated interest rate used was 3.926%. For the fiscal year ended June 30, 2024, the Agency recognized \$6,719 in lease expense and \$1,210 in interest expense in the accompanying Statement of Activities.

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Principal and interest payments on this office equipment lease to maturity are as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 7,055	\$ 938	\$ 7,907
2026	7,248	658	7,906
2027	7,538	368	7,906
2028	5,851	78	5,929
Total	<u>\$ 27,692</u>	<u>\$ 2,042</u>	<u>\$ 29,648</u>

**9. Non-Imposed Employee Fringe Benefits**

Payroll fringe benefit costs of the Agency’s employees funded by state appropriations (general fund) are assumed by the State and are not charged to the Agency’s operating funds. These costs, totaling \$1,642,174 for the year ended June 30, 2024, have been reported as revenues and expenditures of the Agency’s general fund.

**10. Retirement Benefits**

***Pension Plan***

*Plan Description*

Generally, all full-time employees of the State and counties, which includes the Agency, are required to be members of the Employees’ Retirement System of the State of Hawaii (the ERS), a cost-sharing multiple-employer defined benefit pension plan that administers the State’s pension benefits program. Benefits, eligibility, and contribution requirements are governed by Hawaii Revised Statutes (HRS) Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

*Benefits Provided*

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability, and death benefits with three membership classes known as the noncontributory, contributory, and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation



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for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

***Noncontributory Class***

*Retirement Benefits*

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

*Disability Benefits*

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

*Death Benefits*

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

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Ordinary death benefits are available to employees who were active at time of death with at least 10 years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

***Contributory Class for Members Hired Prior to July 1, 2012***

*Retirement Benefits*

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

*Disability Benefits*

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

*Death Benefits*

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

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***Contributory Class for Members Hired After June 30, 2012***

*Retirement Benefits*

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.

*Disability and Death Benefits*

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. 10 years of credited service is required for ordinary disability.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

***Hybrid Class for Members Hired Prior to July 1, 2012***

*Retirement Benefits*

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

*Disability Benefits*

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

*Death Benefits*

For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If

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there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

***Hybrid Class for Members Hired After June 30, 2012***

*Retirement Benefits*

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

*Disability and Death Benefits*

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

***Contributions***

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every three years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2024 was 24% for general employees. Pension contributions paid by the State on behalf of the Agency for the year ended June 30, 2024 were approximately \$596,000.

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The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension***

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Agency. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension only to component units and proprietary funds that are reported separately in the State's ACFR. Accordingly, the Agency's proportionate share of the State's pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is not reported in the accompanying financial statements.

Additional disclosures and required supplementary information stipulated by GASB Statement Nos. 68 and 71 pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's ACFR.

***Postemployment Health Care and Life Insurance Benefits***

*Plan Description*

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

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

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

***Contributions***

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF paid by the State on behalf of the Agency was approximately \$299,000 for the fiscal year ended June 30, 2024.

***Other Post-Employment Benefits (OPEB) Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Agency. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB only to component units and proprietary funds that are reported separately in the State's ACFR. Accordingly, the Agency's proportionate share of the State's OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB are not reported in the accompanying financial statements.

Additional disclosures and required supplementary information stipulated by GASB Statement No. 75 pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

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**11. Risk Management**

The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past 10 fiscal years. A summary of the State's underwriting risks is as follows:

***Property Insurance***

The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is \$200,000,000, except for terrorism losses, which has a \$100,000,000 per occurrence limit. The deductible for losses such as windstorm, tsunamis, floods, and earthquakes are 3% of the replacement costs to the property subject to a \$1,000,000 per occurrence minimum. The deductible for all other losses, except for terrorism, is \$1,000,000 per occurrence. The deductible for terrorism is \$10,000 per occurrence.

***Crime Insurance***

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence, except for social engineering fraud (with official authorization), which has a \$100,000 limit per occurrence and a \$25,000 deductible, social engineering fraud (without official authorization), which has a \$25,000 limit per occurrence and a \$25,000 deductible, claims and computer investigation expenses, which has a \$100,000 limit per occurrence and no deductible, and corporate credit card fraud which has a \$10,000,000 limit per occurrence and a \$1,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State's General Fund.

***Casualty and Professional Liability***

Liability claims up to \$25,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has various types of coverages with a \$5,000,000 self-insured retention per occurrence, including \$2,500,000 corridor. The annual aggregate limit for the various coverages is \$5,000,000. Losses under the deductible amount but over the Risk Management Office authority or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

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***Cyber Liability Insurance***

The State is insured for various types of cyber-related activities with a loss limit up to \$10,000,000 with self-insured retention of \$1,000,000. This policy covers all departments and divisions except for the University of Hawaii and includes (with sub-limits) media content liability, PCI-DSS assessment coverage, reputational risk response, reputational loss coverage, E-discovery consultant services, data recovery amendatory system failure non-physical damage loss of use (bricking), system failure coverage, criminal reward expense, claim avoidance expense, crypto jacking coverage, fraudulent impersonation and telecommunication fraud coverage, court attendance cost coverage, company definition amendatory-scheduled entities with varying co-insurance (tier 1 & 2).

***Self-Insured Risks***

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$25,000 per claim are administered by the Risk Management Office. The State administers its workers' compensation losses via the Department of Human Resources and Development. The Agency's portion of the State's workers' compensation expense for the year ended June 30, 2024, was approximately \$35,000.

**12. Commitments and Contingencies**

***Encumbrances***

Encumbrances totaled approximately \$6,392,000 as of June 30, 2024.

***Accumulated Sick Leave***

Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2024 amounted to approximately \$1,455,000.

***Litigation***

From time to time, the Agency is named as a defendant in various legal proceedings. It has been the State's historical practice that certain types of judgments and settlements against an agency of the State are paid from the State's general fund through an appropriation bill which is submitted annually by the Department of the Attorney General to the State Legislature.



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***Lease Commitments***

The Agency leases office equipment under noncancelable operating leases expiring in April 2028. See Notes 7 and 8 for reported lease asset and lease payable, respectively, related to these lease commitments.

**13. Temporary Hazard Pay**

The State entered into multiple settlement agreements regarding the Temporary Hazard Pay (THP) with unions for periods covering dates in March 2020 through March 2022, for those employees who performed essential functions during the COVID-19 pandemic. The Agency recorded payroll costs related to the THP in the accompanying financial statements, which amounted to \$250,000 for the fiscal year ended June 30, 2024. Act 049, SLH 2024 provided emergency appropriations for public employment cost items and cost adjustments for employees of certain collective bargaining units. Effective July 1, 2024, the State appropriated a total of \$458.8 million as a result of a negotiated settlement for employees who met certain requirements during the COVID-19 pandemic, which includes the Agency.

**14. Subsequent Events**

The Agency has evaluated subsequent events through December 23, 2024, the date the financial statements were available to be issued, and determined that there are no other matters to disclose.

**PART III**

**INTERNAL CONTROL AND COMPLIANCE SECTION**

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

The Auditor  
State of Hawaii:

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the governmental activities and the general fund of the Office of the Auditor, State of Hawaii (the Agency), as of and for the year ended June 30, 2024, and the related notes to financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 23, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from 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 financial statements. 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*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KKDL Y LLC**

Honolulu, Hawaii  
December 23, 2024