



**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Basic Financial Statements

June 30, 2012

(With Independent Auditors' Report Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

March 27, 2013

Ms. Jan Yamane
Office of the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

Dear Ms. Yamane and the Board of Education:

This is our report on the financial audit of the Department of Education, State of Hawaii (Department), as of and for the fiscal year ended June 30, 2012. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Objectives of the Audit

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department's financial statements as of and for the fiscal year ended June 30, 2012 and to comply with the requirements of OMB Circular A-133.

Scope of the Audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2012.

Organization of the Report

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes of the Department as of and for the fiscal year ended June 30, 2012 and our opinion on the basic financial statements
- Part II – Our report on internal control over financial reporting and on compliance and other matters
- Part III – Our report on compliance with requirements applicable to each major program and on internal control over compliance
- Part IV – The schedule of findings and questioned costs
- Part V – Corrective action plan as provided by the Department
- Part VI – The summary schedule of prior audit findings



Ms. Jan Yamane
Office of the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education
March 27, 2013
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We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the Department.

Very truly yours,

KPMG LLP

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STATE OF HAWAII**

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PART I

Financial Section



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Education, State of Hawaii (the Department), as of and for the year ended June 30, 2012, 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 did not audit the financial statements of the Public Charter Schools, which represent 11 percent, 16 percent, and 4 percent, respectively, of the total assets, fund balances, and revenues of the Department's major governmental funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department, is based on the report of the other auditors.

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 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 to the financial statements, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, the respective budgetary statements for the general fund and federal fund, and the aggregate remaining fund information of the State of Hawaii that is 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, 2012, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2012, and the respective changes in financial position, and, where applicable, the respective budgetary comparisons 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 27, 2013 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.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–15 be presented to supplement the basic financial statements. Such information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

March 27, 2013

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

The following management's discussion and analysis provides an overview of the Department of Education's (Department) financial activities for the fiscal year ended June 30, 2012. Readers should also review the basic financial statements and notes to enhance their understanding of the Department's financial performance.

These financial statements represent the combination of Department of Education (DOE), State Library (Library), and Public Charter Schools (PCS) where the DOE prepares entries, based on information provided by the Library and PCS, to combine financial data for the three departments, in aggregate known as the Department. The fiscal and oversight authority for the DOE, Library and PCS are managed independently. The DOE has determined that PCS balances are significant, but not material, and relies on financial information which have been audited by third-party and coordinated by PCS.

Financial Highlights

Key government-wide financial highlights for Fiscal Year (FY) 2011-12 compared to the prior FY 2010-11 are as follows:

- Total FY 2011-12 revenues were \$1.961 billion, a decrease of 3% or \$69.4 million from \$2.031 billion in FY 2010-11. The decrease was primarily due to less federal funds received in FY 2011-12 under the American Recovery and Reinvestment Act of 2009 (ARRA) State Fiscal Stabilization Fund (SFSF). In comparison to FY 2010-11, federal funds for that grant declined by \$74 million. In addition, a one-time legislative appropriation of \$67 million from the State Hurricane Relief Fund was received in FY 2010-11 for salary costs, in order to partially restore instructional days previously lost due to state imposed furloughs. The decline in revenues was partially offset by higher state appropriations, due to the discontinuance of FY 2010-11 furloughs, and adjustments to state employee salary reductions in FY 2011-12.
- Total FY 2011-12 expenses were \$2.328 billion, a decrease of 0.5% or \$11 million from \$2.339 billion in FY 2010-11. The decrease in expenses was similarly due to the lower level of federal funds received under ARRA and SFSF grants mentioned above, partially offset by salary impacts of the discontinuance of FY 2010-11 furloughs, and adjustments to state employee salary reductions in FY 2011-12.
- Of the total FY 2011-12 expenses of \$2.328 billion, 93% or \$2.160 billion was spent for school-related expenditures. Of the total FY 2010-11 expenses of \$2.339 billion, 93% or \$2.177 billion was spent for school-related expenditures.
- Total assets exceeded liabilities as of June 30, 2012 by \$1.280 billion (net assets), compared to \$1.247 billion as of June 30, 2011, an increase of 3%.
- Capital assets, net of accumulated depreciation, comprised 93% and 91% of total net assets as of June 30, 2012 and 2011, respectively.

Overview of the Financial Statements

The financial statements consist of three sections: management's discussion and analysis (this section), basic financial statements and notes to basic financial statements, and required supplementary information. These sections are described below.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

The basic financial statements include government-wide and fund financial statements, which provide different views of the Department:

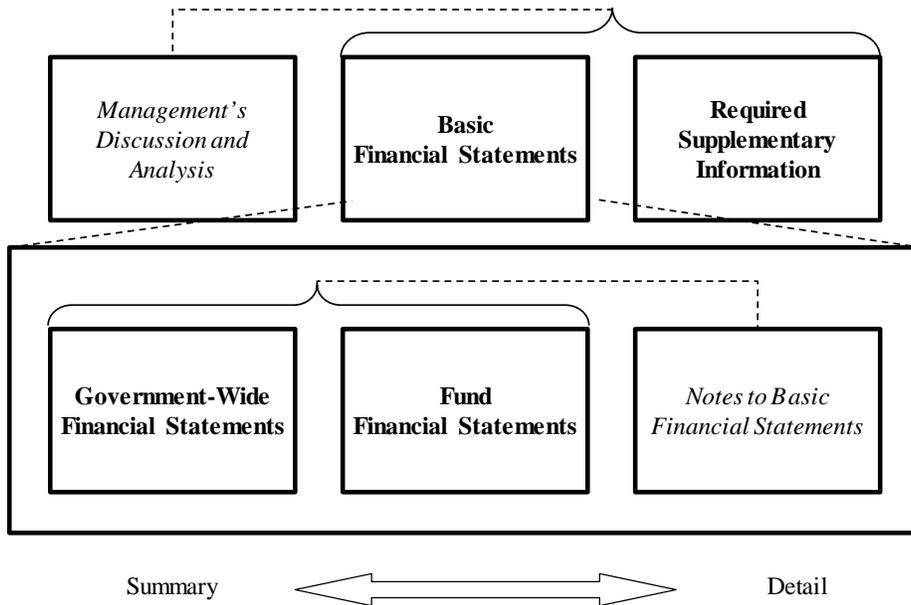
- *Government-wide financial statements* provide both *long-term* and *short-term* information about the Department's *overall* financial position and results of operations. The statements are presented on an accrual basis of accounting and consist of the Statement of Net Assets and the Statement of Activities.
- *Fund financial statements* focus on *individual* parts of the Department and report operations in more detail than the government-wide statements. Governmental funds statements include most of the Department's programs and services such as instruction, support services, operation and maintenance of facilities, student transportation, and extracurricular activities and are presented on a modified accrual basis of accounting. Fiduciary funds statement report on agency funds (or local school funds as the term is used in our schools), which are held in a custodial capacity for students' school activities that take place outside of the formal class period and are not requirements for class work or credit. Certain activities, such as depreciation expense, are included in the government-wide financial statements but not the fund financial statements. These activities are highlighted in the financial statement's *Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities*.

Notes are included in the financial statements to explain financial statement information and provide more detailed data. The basic financial statements are followed by a section of required supplementary information. This section further explains and supports the information in the financial statements.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

Exhibit A-1 shows how the required parts of this annual report are arranged and related:

Exhibit A-1



**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

Government-Wide Financial Analysis

The following discussion highlights management's understanding of the key aspects of the Department's financial activities.

Net Assets – the Department's largest portion of net assets is capital assets (e.g., land, buildings, equipment), which are unavailable for future spending. The Department's unrestricted net assets are available for future use to provide program services.

Exhibit A-2
Government-Wide
Statements of Net Assets
Fiscal years 2012 and 2011
(Amounts in millions)

	Governmental activities		2012 – 2011	
	2012	2011	Increase (decrease)	Percentage change
Assets:				
Current	\$ 428.0	452.6	(24.6)	(5)%
Noncurrent (capital assets, net of depreciation)	1,195.7	1,140.3	55.4	5
Total assets	<u>\$ 1,623.7</u>	<u>1,592.9</u>	<u>30.8</u>	<u>2%</u>
Liabilities:				
Current	\$ 253.1	247.3	5.8	2%
Noncurrent	90.7	98.4	(7.7)	(8)
Total liabilities	<u>343.8</u>	<u>345.7</u>	<u>(1.9)</u>	<u>(1)</u>
Net assets:				
Investment in capital assets	1,195.6	1,140.3	55.3	5
Unrestricted	84.3	106.9	(22.6)	(21)
Total net assets	<u>1,279.9</u>	<u>1,247.2</u>	<u>32.7</u>	<u>3</u>
Total liabilities and net assets	<u>\$ 1,623.7</u>	<u>1,592.9</u>	<u>30.8</u>	<u>2%</u>

Overall Financial Position – The Department's overall financial position has increased as of June 30, 2012 compared to the prior fiscal year-end.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

Changes in Net Assets – Total government-wide net assets increased by \$32.8 million, or 3%, primarily due to an increased investment in capital assets of \$55.4 million.

Exhibit A-3
Government-Wide
Changes in Net Assets
Fiscal years 2012 and 2011
(Amounts in millions)

	<u>Governmental activities</u>		<u>2012 – 2011</u>	
	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>	<u>Percentage change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 65.8	77.6	(11.8)	(15)%
Operating grants and contributions	305.1	471.8	(166.7)	(35)
General revenues:				
State allotted appropriations, net of lapses	1,590.4	1,480.1	110.3	7
Unrestricted investment earnings	0.1	1.3	(1.2)	(92)
Total	<u>1,961.4</u>	<u>2,030.8</u>	<u>(69.4)</u>	<u>(3)</u>
Transfers, net	399.6	392.4	7.2	2
Expenses:				
School-related	2,159.6	2,176.7	(17.1)	(1)
State and complex area administration	52.1	56.6	(4.5)	(8)
Public libraries	46.3	44.5	1.8	4
Capital outlay	70.2	60.9	9.3	15
Total	<u>2,328.2</u>	<u>2,338.7</u>	<u>(10.5)</u>	<u>—</u>
Change in net assets	<u>\$ 32.8</u>	<u>84.5</u>	<u>(51.7)</u>	<u>(61)%</u>

Overall Results of Operations – As shown above, the Department's results of operations for FY 2011-12 have resulted in an increase in net assets of \$32.8 million. Total revenues were \$1.961 billion in FY 2011-12, a decrease of \$69.4 million from \$2.031 billion in FY 2010-11. The decrease was primarily due to less federal funds received in FY 2011-12 under the ARRA State Fiscal Stabilization Fund (SFSF). In comparison to FY 2010-11, federal funds for that grant declined by \$74 million. In addition, a one-time legislative appropriation of \$67 million from the State Hurricane Relief Fund was received in FY 2010-11 for salary costs, in order to partially restore instructional days previously lost due to state imposed furloughs. The decline in revenues was partially offset by higher state appropriations, due to the discontinuance of FY 2010-11 furloughs, and adjustments to state employee salary reductions in FY 2011-12.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management’s Discussion and Analysis

Fiscal Year ended June 30, 2012

Individual Funds – Within the “Governmental Funds” financial statements, (the sum of general, federal, capital projects, and other funds), has resulted in a net overall total positive fund balance for the governmental funds as of June 30, 2012.

Budget Results – Decreases of “Final” compared to “Original” budgeted amounts as reported on the *Statements of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund* are primarily due to legislative appropriations due to collective bargaining compensation changes, as well as budget restrictions placed by the Governor. For the general fund, the Department is allowed to carry over up to 5% of any appropriation at the end of the fiscal year. As of June 30, 2012, general funds carried over totaled to \$28.2 million, representing 2% of appropriations. For federal funds, since most grants stipulate a 27-month expenditure period, expenditures during a specific fiscal year may exceed revenues, due to the timing of expenditures compared to receipts. The Department expended \$20.7 million more than it received in federal funds during FY 2011-12; this merely reflects the timing of expenditures versus grants that may have been received during the prior year.

Explanation of Major Departmental Programs

The State Budget is organized by major program areas. The Department’s major programs are as follows (see *note 1(a) – Introduction*):

<u>Program</u>	<u>Program title</u>	<u>Program description</u>
EDN 100	School-Based Budgeting	Instructional services, curriculum programs, and at-risk programs
EDN 150	Comprehensive Student Support Services	Special needs assessment, special education services, school-based behavioral health services, and other related services required for a free and appropriate public education, autism services, and professional development
EDN 200	Instructional Support	Curriculum support, assessment, planning, information technology support, and school leadership training
EDN 300	State and Complex Administration	Board of Education, Superintendent, Complex Area Superintendents, budget, communications, civil rights compliance, internal audit, business services, human resources, and information technology
EDN 400	School Support	School food services, utilities, custodial services, repair and maintenance, and student transportation
EDN 407	Hawaii State Public Library System	The Hawaii State Public Library System is included in the Department of Education’s combined financial statements since both the Library System and the DOE are administratively and legally supervised by the Hawaii State Board of Education

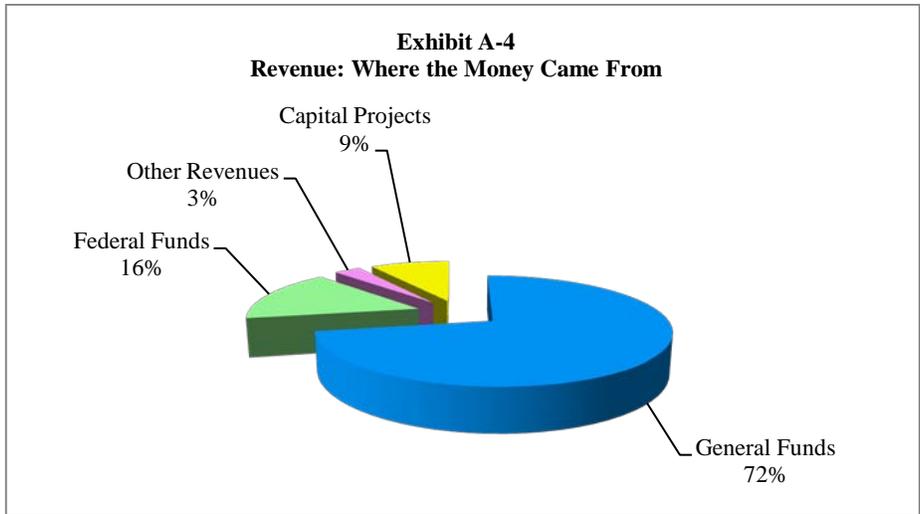
**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

<u>Program</u>	<u>Program title</u>	<u>Program description</u>
EDN 500	School Community Services	After-school care and adult education
EDN 600	Public Charter Schools	The public charter schools are included in the Department of Education's combined financial statements since they are legally established in the State's budget as part of "lower education"

Exhibit A-4 summarizes the Department's revenue. Revenues are primarily from state general funds (taxpayer monies). Other revenues are from federal grants, special funds to support specific programs such as cafeteria collections for school food services, and donations.

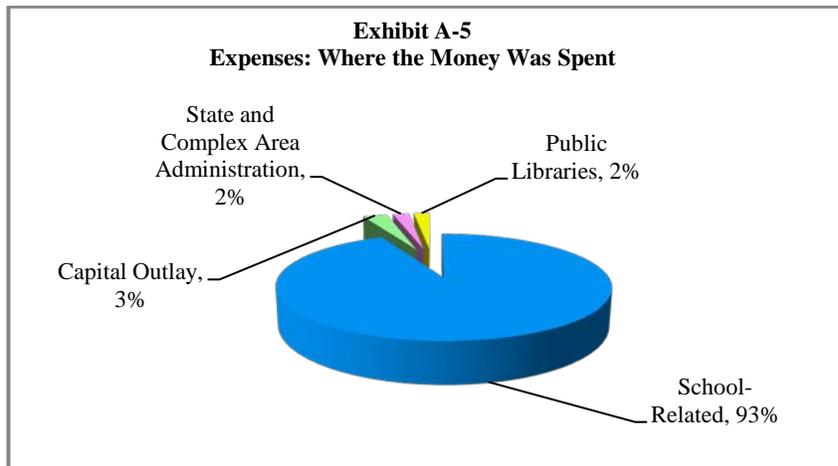


**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

Exhibit A-5 summarizes the Department's expenses. A total of 93% of Department expenditures are for school-level instructional and related programs in EDN 100, 150, 400, 500, and 600, while only 2% are for state and complex area administration.



General Fund Budgetary Highlights

The Department was appropriated general funds of \$1.413 billion in FY 2011-12.

State law permits the Department to “carryover” up to 5% of general fund appropriations from one fiscal year to the next. The Department carried over \$28.2 million in FY 2011-12 general fund appropriations for expenditures in FY 2011-12. Carryover funds enable schools to make long-range fiscal plans, save for major purchases for which single-year funding may not be sufficient, and provide funds to start the next school year. Under the DOE’s single-school calendar, schools start their school year in July statewide, within weeks of the beginning of the fiscal year.

Agency Funds

Agency funds, or “local school funds,” are held for students in a custodial capacity and do not require deposit into the State Treasury. The fund contains monies collected and maintained by schools for students. Examples include yearbook, newspaper fund, student government dues, physical education uniform sales, and excursions. The funds are used for school activities that take place outside formal class periods and are not required for class work or credit.

Agency fund due to student group and others was \$24.5 million in FY 2011-12 representing a 3% increase from the prior fiscal year.

Capital Asset and Debt Administration

The Department’s capital improvement program (CIP) strives to provide facilities that are well-placed, sufficient in number, flexible, functional, and creatively designed to accommodate population changes, support educational programs, and promote health and safety of students, employees, and the public. The Departments of Accounting

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Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

and General Services, Land and Natural Resources, and Budget and Finance assist the Department with various aspects of capital improvement.

Buildings, building improvements, and land improvements less than \$100,000 are not reported as capital assets. This year's capital improvements are summarized as follows:

Representative Highlights of Major CIP Projects Completed

Major Buildings

Baldwin High School, Library
Baldwin High School, Softball Field
Campbell High School, Eight Classroom Building
Kapaa High School, Softball Stadium
Konawaena High School, Softball Field
Lahainaluna High School, Cafeteria
Leilehua High School, Football Field Improvements
Maui High School, Softball Stadium Facilities
Pahoa High & Intermediate, Gymnasium

Portable Classrooms (Quantity)

Kamaile Academy, (2)

Representative Highlights of Major Repair and Maintenance Work Completed

Electrical, Bell, and Fire Alarm Upgrades

Hale Kula Elementary School, Electrical Upgrade
Helemano Elementary School, Electrical Upgrade
Honaunau Elementary School, Electrical Upgrade
Honokaa Elementary School, Electrical Upgrade
Ilima Intermediate School, Electrical Upgrade
Kamaile Academy, Replace Fire Alarm/ Public Address System
Kanoelani Elementary, Electrical Upgrade
Ke Kula'O Ehunuikaimali, Program Bell Improvements
Kekaha Elementary School, Electrical Upgrade
Koloa Elementary School, Electrical Upgrade
Maui High School, Electrical Upgrade
Mauka Lani Elementary School, Electrical Upgrade
Nanakuli High & Intermediate, Telecommunications Upgrade
Pukalani Elementary School, Electrical Upgrade
Wailuku Elementary School, Rewire Fire Alarm
Waimea High School, Electrical Upgrade

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STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

Reroofing

Farrington High School, Reroof Buildings I and J
Iroquois Point Elementary School, Reroof Building A
Kapaa High School, Reroof Buildings B and K
Kapunahala Elementary School, Reroof Covered Walkways
Makaha Elementary School, Reroof Building C
Waiakea Intermediate School, Reroof Building L
Waipahu Intermediate School, Reroof Building N
Wilcox Elementary School, Reroof Buildings F and J

Other Significant Work

Ala Wai Elementary School, ADA Transition Plan Improvements
Aliamanu Intermediate, Building G Install Hood Fire Suppression System
De Silva Elementary, Building I Light Installation
Heeia Elementary School, Campus Drainage Improvements
Hilo High School, Air-condition Building F
Kaewai Elementary School, Asbestos Abatement
Kaimuki High School, Renovation for Media Center
Kaimuki High School, Design and Installation of Photovoltaic System
Kapaa High School, Covered Walkway
Ke Kula'O Ehuuikaimali, Conversion of Portable Classroom to Science Classroom
King Intermediate, Additional Parking & Covered Bus Stop
Lincoln Elementary School, Air-conditioning Upgrades for Buildings F & G
Makaha Elementary School, Accessibility Improvements
McKinley High School, Architectural Barrier Removal
Mililani High School, Drop-Off Area, Turn Around, and Guest Parking
Noelani Elementary School, Multi-Purpose Play court
Pahoa Elementary School, Install a Ramp
Pearl City Elementary School, Expand and Improve Library
Pearl City High School, Replace A/C Unit Building J
Pearl Ridge Elementary School, Parking Improvements
Pope Elementary School, Renovate Restrooms Building B
Roosevelt High School, Renovate Pool and Pool Room
Waianae High School, Air-condition and Electrical Upgrade Building B

Whole School Classroom Renovations Statewide

Since the program's inception in FY 2007-08, a total of \$170 million in funding has been allotted for whole classroom renovations. These funds have since been expended and the DOE is now supplementing use of repair and maintenance funds to finish up the program.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

Program status as of June 30, 2012 was as follows:

Schools completed prior to July 1, 2011	64
School completed in FY 2011-12	13
Under construction	16
Design completed, pending bid phase	2
Deferred due to closure or change in school status	1
	<hr/>
Total schools	<u>96</u>

The following whole school classroom renovation projects were completed during FY 2011-12:

- Ahuimanu Elementary School
- Kaahumanu Elementary School
- Kaimuki High School
- Kapunahala Elementary School
- Kohala Middle School
- Liholiho Elementary School
- Lunalilo Elementary School
- Mauka Lani Elementary School
- Noelani Elementary School
- Puohala Elementary School
- Waiakea High School
- Waialae Elementary School
- Waikiki Elementary School

The Department's long-term debt is managed by the Department of Budget and Finance; however, general fund appropriations for interest payment and debt retirement are included in the Department of Budget and Finance's budget. Interest payments and debt retired were \$215.2 million in FY 2011-12. Please refer to *note 5, Capital Assets*, for more information on capital assets.

Economic Factors and Next Year's Budget

The statewide seasonally adjusted unemployment rate for September 2012 was 5.7% while the seasonally adjusted national unemployment rate was 7.8%. One year ago, the State's seasonally adjusted unemployment rate stood at 6.8% while the seasonally adjusted national unemployment rate was 9.0%.

The Council of Revenues in January 2013 increased the State's General Fund tax revenue growth rate for fiscal years 2013 and 2014 from 4.9% to 5.1% and from 3.9% to 6.8%, respectively.

Cumulative general fund tax revenues for the first five months of fiscal year 2013 was \$2.2 billion, an increase of \$238.7 million from the same period last fiscal year. General excise and use tax collections, which are the largest source of revenue and a good measure of economic growth, increased 11.8%.

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STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

Because of the lower estimated general fund revenue growth in fiscal year 2013 projected during the state legislative budget cycle, the Governor has imposed a 5% spending restriction on discretionary operating expenses of general funds for all departments and agencies of the Executive Branch.

Currently Known Facts That Will Financially Impact the DOE

The DOE continues its implementation of the weighted student formula, giving schools increased budgetary decision-making flexibility, authority, and accountability. The Committee on Weights, established by Statute, reviews the weighted student formula biannually, and makes recommendations to the Board of Education as to improvements or changes to the formula.

In accordance with the No Child Left Behind Act, the DOE has made substantial progress in reading and mathematics proficiencies, at levels consistent with the State's plan to meet full proficiencies by FY 2013-14.

The DOE's financial reporting goal is to provide its financial information to school-level personnel and the public in a transparent manner. There is a critical need for integrated human resources and financial systems, and more financial reports that are easily understood by nonfiscal personnel, and more easily used for resource management. Accordingly, the DOE has developed detailed specifications required to replace its aging computer systems. The DOE is working closely with the new State Chief Information Officer (CIO) on the State's proposed plans to procure and implement a new Enterprise Resource Planning (ERP) system, over the next five years.

The American Recovery and Reinvestment Act (ARRA) of 2009 continued to contribute toward maintaining education services during FY 2011-12. The Department received \$4.6 million in ARRA – Individuals with Disabilities Education Act funds; \$1.4 million in ARRA – Educational Technology funds; \$13.3 million in ARRA – Title I grant funds; and was able to draw down \$43.5 million of ARRA – State Fiscal Stabilization (SFSF) and Education Jobs Funds, including \$9.5 million received for the competitive “Race To The Top” grant as explained below.

ARRA SFSF provided the U.S. Department of Education with \$4.35 billion to be used for a competitive grant program, called “Race To The Top.” More information is available at the U.S. Department of Education website: www.ed.gov. This program is designed to encourage and reward states that are creating the conditions for education innovation and reform; achieving significant improvement in student outcomes, including making substantial gains in student achievement; closing achievement gaps; improving high school graduation rates, and ensuring student preparation for success in college and careers; and implementing ambitious plans in four (4) core education reform areas:

- Adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy
- Building data systems that measure student growth and success, and inform teachers and principals about how they can improve instruction
- Recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed the most
- Turning around our lowest-achieving schools

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Management's Discussion and Analysis

Fiscal Year ended June 30, 2012

On August 24, 2010, U.S. Secretary Arne Duncan announced that Hawaii was a Race To The Top Phase 2 winner. The federal government pledged to invest \$75 million in Hawaii over four years and secured its investment with the commitment of educators and stakeholders to execute Hawaii's blueprint for education reform.

With the unprecedented collective support of educators, legislators, policy makers, and community partners, Hawaii continues to move forward with its plan to ensure that every child graduates college-and-career-ready.

Hawaii's comprehensive five-point plan is focused on:

1. Tying high-quality college-and-career-ready standards and assessments to a statewide curriculum;
2. Improving longitudinal data collection and use;
3. Cultivating, rewarding, and leveraging effective teaching and leading;
4. Providing targeted support to struggling schools and students; and
5. Aligning organizational functions to support reform outcomes.

On December 21, 2011, the U.S. DOE placed the State of Hawaii's Race To The Top grant on "high-risk" status, expressing concerns about the state's progress on grant results. The U.S. DOE conducted an on-site visit in March 2012, to further evaluate the state's progress. The DOE has focused significant efforts, and has made improvements, to address the U.S. DOE's concerns. On February 8, 2013, the U.S. DOE notified Hawaii Governor Neal Abercrombie that Hawaii's "high-risk" status has been removed in two "Assurance" areas, due to DOE's progress in the areas of standards, assessments, and data system development and use. The DOE is working towards removing the "high-risk" status for the remaining three "Assurance" areas, and anticipates resolution in the near future.

Contacting the Department's Financial Management

The financial report is designed to provide the public with a general overview of the Department's finances and demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Office of the Fiscal Services, Department of Education, P.O. Box 2360, Honolulu, Hawaii 96804. For general information about the Department, please refer to the Department of Education's website at doe.k12.hi.us.

Department of Education
State of Hawaii

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental activities</u>
ASSETS	
Current assets:	
Cash	\$ 385,429,020
Receivables:	
Due from federal government	30,615,796
Due from other agencies	6,854,293
Accounts receivable	<u>5,164,277</u>
Total current assets	428,063,386
Capital assets, net of accumulated depreciation	<u>1,195,667,561</u>
TOTAL ASSETS	<u><u>\$1,623,730,947</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Vouchers and contracts payable	\$ 92,625,710
Accrued wages and employee benefits	121,958,119
Accrued compensated absences	20,922,644
Workers' compensation claims reserve	12,602,484
Due to State of Hawaii General Fund	<u>5,000,000</u>
Total current liabilities	253,108,957
Accrued compensated absences, less current portion	43,262,503
Workers' compensation claims reserve, less current portion	<u>47,409,346</u>
Total liabilities	<u>343,780,806</u>
Net assets:	
Invested in capital assets	1,195,667,561
Unrestricted	<u>84,282,580</u>
Total net assets	<u>1,279,950,141</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$1,623,730,947</u></u>

See accompanying notes to basic financial statements.

Department of Education
State of Hawaii

STATEMENT OF ACTIVITIES

Fiscal year ended June 30, 2012

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net revenue (expenses) and change in net assets Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	
Governmental activities:				
School-related	\$2,159,610,043	\$ 62,553,124	\$302,528,661	\$ (1,794,528,258)
State and complex area administration	52,113,965	1,294,523	754,444	(50,064,998)
Public libraries	46,298,769	1,966,672	1,778,687	(42,553,410)
Capital outlay	70,192,734	—	—	(70,192,734)
Total governmental activities	<u>\$2,328,215,511</u>	<u>\$ 65,814,319</u>	<u>\$ 305,061,792</u>	(1,957,339,400)
General revenues:				
State allotted appropriations, net of lapses				1,590,398,815
Unrestricted investment earnings				97,091
Total general revenues				<u>1,590,495,906</u>
Other financing sources (uses):				
Transfers in				615,998,471
Transfers out				(216,382,915)
Net transfers				<u>399,615,556</u>
Change in net assets				32,772,062
Net assets at June 30, 2011				<u>1,247,178,079</u>
Net assets at June 30, 2012				<u>\$ 1,279,950,141</u>

See accompanying notes to basic financial statements.

Department of Education
State of Hawaii

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	<u>General</u>	<u>Federal</u>	<u>Capital Projects</u>	<u>Other</u>	<u>Total</u>
ASSETS					
Cash	\$143,893,883	\$123,517,849	\$ 40,871,221	\$ 77,146,067	\$385,429,020
Receivables:					
Due from federal government	—	30,615,796	—	—	30,615,796
Due from other agencies	—	—	—	6,854,293	6,854,293
Accounts receivable	—	—	—	5,164,277	5,164,277
Total assets	<u>\$143,893,883</u>	<u>\$154,133,645</u>	<u>\$ 40,871,221</u>	<u>\$ 89,164,637</u>	<u>\$428,063,386</u>
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Vouchers and contracts payable	\$ 40,069,698	\$ 12,163,867	\$ 37,084,415	\$ 3,307,730	\$ 92,625,710
Accrued wages and benefits payable	113,880,596	5,824,196	268,223	1,985,104	121,958,119
Due to State of Hawaii General Fund	5,000,000	—	—	—	5,000,000
Total liabilities	<u>158,950,294</u>	<u>17,988,063</u>	<u>37,352,638</u>	<u>5,292,834</u>	<u>219,583,829</u>
Fund balances (deficit):					
Restricted	—	107,934,780	—	—	107,934,780
Committed	62,973,861	28,210,802	404,514,013	1,095,620	496,794,296
Assigned	35,047,295	—	—	—	35,047,295
Unassigned	(113,077,567)	—	(400,995,430)	82,776,183	(431,296,814)
Total fund balances (deficit)	<u>(15,056,411)</u>	<u>136,145,582</u>	<u>3,518,583</u>	<u>83,871,803</u>	<u>208,479,557</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$143,893,883</u>	<u>\$154,133,645</u>	<u>\$ 40,871,221</u>	<u>\$ 89,164,637</u>	<u>\$428,063,386</u>

See accompanying notes to basic financial statements.

Department of Education
State of Hawaii

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2012

Total fund balances – governmental funds		\$ 208,479,557
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets	\$2,482,706,481	
Less accumulated depreciation	<u>(1,287,038,920)</u>	
		1,195,667,561
Accrued compensated absences liability is not due in the current period and, therefore, is not reported in the funds.		(64,185,147)
Accrued workers' compensation liability is not due in the current period and, therefore, is not reported in the funds.		<u>(60,011,830)</u>
Net assets of governmental activities		<u><u>\$1,279,950,141</u></u>

See accompanying notes to basic financial statements.

Department of Education
State of Hawaii

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS

Fiscal year ended June 30, 2012

	<u>General</u>	<u>Federal</u>	<u>Capital Projects</u>	<u>Other</u>	<u>Total</u>
Revenues:					
State allotments, net	\$1,410,585,124	\$ —	\$179,813,691	\$ 6,383,360	\$1,596,782,175
Intergovernmental revenues	—	310,195,668	—	1,196,146	311,391,814
Other revenues	—	—	—	53,198,028	53,198,028
	<u>1,410,585,124</u>	<u>310,195,668</u>	<u>179,813,691</u>	<u>60,777,534</u>	<u>1,961,372,017</u>
Expenditures:					
School-related	1,731,693,540	282,673,153	—	77,756,215	2,092,122,908
State and complex area administration	49,170,166	1,393,106	—	939,230	51,502,502
Public libraries	34,400,938	1,354,480	—	2,650,670	38,406,088
Capital outlay	—	—	201,547,254	1,065,355	202,612,609
	<u>1,815,264,644</u>	<u>285,420,739</u>	<u>201,547,254</u>	<u>82,411,470</u>	<u>2,384,644,107</u>
Excess (deficiency) of revenues over expenditures	<u>(404,679,520)</u>	<u>24,774,929</u>	<u>(21,733,563)</u>	<u>(21,633,936)</u>	<u>(423,272,090)</u>
Other financing sources (uses):					
Transfers in	615,652,808	—	—	345,663	615,998,471
Transfers out	<u>(215,164,302)</u>	<u>(345,663)</u>	<u>(872,950)</u>	<u>—</u>	<u>(216,382,915)</u>
Net transfers	<u>400,488,506</u>	<u>(345,663)</u>	<u>(872,950)</u>	<u>345,663</u>	<u>399,615,556</u>
NET CHANGES IN FUND BALANCES (DEFICITS)	(4,191,014)	24,429,266	(22,606,513)	(21,288,273)	(23,656,534)
Fund balances (deficit) at June 30, 2011	<u>(10,865,397)</u>	<u>111,716,316</u>	<u>26,125,096</u>	<u>105,160,076</u>	<u>232,136,091</u>
Fund balances (deficit) at June 30, 2012	<u>\$ (15,056,411)</u>	<u>\$136,145,582</u>	<u>\$ 3,518,583</u>	<u>\$ 83,871,803</u>	<u>\$ 208,479,557</u>

See accompanying notes to basic financial statements.

Department of Education
State of Hawaii

RECONCILIATION OF THE CHANGE IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Fiscal year ended June 30, 2012

Net change in fund balances – total governmental funds \$ (23,656,534)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is depreciated
over their estimated useful lives.

Capital assets recorded in the current period	\$ 135,422,897	
Loss on disposal of capital assets	(3,003,022)	
Less current fiscal year depreciation	<u>(77,073,727)</u>	
		55,346,148

Change in long-term compensated absences reported in the statement of
activities does not require the use of current financial resources and,
therefore, is not reported as expenditures in governmental funds. 4,861,649

Change in workers' compensation liability reported in the statement of
activities does not require the use of current financial resources and,
therefore, is not reported not expenditures in governmental funds. (3,779,201)

Change in net assets of governmental activities \$ 32,772,062

See accompanying notes to basic financial statements.

Department of Education
State of Hawaii

STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND

Fiscal year ended June 30, 2012

	Budgeted amounts		Actual on budgetary basis	Variance favorable (unfavorable)
	Original	Final		
Revenues:				
State allotments	\$1,454,093,911	\$1,412,502,052	\$1,409,149,894	\$ (3,352,158)
Expenditures:				
School-related	1,381,901,763	1,346,725,446	1,317,031,985	29,693,461
State and complex area administration	43,344,985	38,198,139	36,389,416	1,808,723
Public libraries	28,847,163	27,578,467	27,578,289	178
	<u>1,454,093,911</u>	<u>1,412,502,052</u>	<u>1,380,999,690</u>	<u>31,502,362</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28,150,204</u>	<u>\$ 28,150,204</u>

See accompanying notes to basic financial statements.

Department of Education
State of Hawaii

STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - FEDERAL FUND

Fiscal year ended June 30, 2012

	Budgeted amounts		Actual on budgetary basis	Variance favorable (unfavorable)
	Original	Final		
Revenues:				
Federal grants	\$ 520,607,739	\$ 504,613,083	\$ 304,549,277	\$ (200,063,806)
Expenditures:				
School-related	515,992,406	494,147,694	277,588,198	216,559,496
State and complex area administration	2,275,507	9,100,145	5,416,448	3,683,697
Public libraries	2,339,826	1,365,244	887,217	478,027
	<u>520,607,739</u>	<u>504,613,083</u>	<u>283,891,863</u>	<u>220,721,220</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 20,657,414</u>	<u>\$ 20,657,414</u>

See accompanying notes to basic financial statements.

Department of Education
State of Hawaii

STATEMENT OF ASSETS AND LIABILITIES - AGENCY FUNDS

June 30, 2012

ASSETS

Cash and cash equivalents	\$ 22,131,162
Investments	<u>2,346,923</u>
TOTAL ASSETS	<u><u>\$ 24,478,085</u></u>

LIABILITIES

Due to student group and others	<u>\$ 24,478,085</u>
TOTAL LIABILITIES	<u><u>\$ 24,478,085</u></u>

See accompanying notes to basic financial statements.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

(1) Financial Reporting Entity

(a) Introduction

The Department of Education of the State of Hawaii (the Department) administers the statewide system of public schools and public libraries. Additionally, the Department is responsible for administering state laws regarding regulation of private school operations through a program of inspection and licensing and the professional certification of all teachers for every academic and noncollege type of school. Federal grants received to support public school and public library programs are administered by the Department on a statewide basis.

These financial statements represent the combination of Department of Education (DOE), State Library (Library), and Public Charter Schools (PCS) where the DOE prepares entries, based on information provided by the Library and PCS, to combine financial data for the three departments, in aggregate known as the Department. The fiscal and oversight authority for the DOE, Library and PCS are managed independently. The DOE has determined that PCS balances are significant, but not material, and relies on financial information which have been audited by third-party and coordinated by PCS.

The Department is a part of the executive branch of the State of Hawaii (the State). The financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2012, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles (GAAP). The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually, which includes the Department's financial activities.

(b) Reporting Entity

The Department has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Department are such that exclusion would cause the Department's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. The Department has determined, based on the GASB criteria, that it has no component units.

(2) Significant Accounting Policies

The accompanying financial statements of the Department have been prepared in conformity with GAAP as prescribed by the GASB.

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements report all assets, liabilities, and activities of the Department as a whole. The fiduciary funds are excluded from the government-wide financial

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

statements because the Department cannot use those assets to finance its operations. Governmental activities are primarily supported by State allotments and intergovernmental revenues.

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 grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments are reported as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

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

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are summarized into a single column.

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Principal revenue sources considered susceptible to accrual include federal grants. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with GAAP since they have been earned and are expected to be collected within 60 days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Department.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation and workers' compensation claims, which are recorded as an expenditure when utilized or paid. The amount of accumulated vacation and reserve for workers' compensation claims at June 30, 2012 has been reported only in the government-wide financial statements.

Fiduciary Funds

The financial statement of fiduciary funds is reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Agency funds do not have a measurement focus and report only assets and liabilities.

(c) Fund Accounting

The financial transactions of the Department are recorded in individual funds that are reported in the fund financial statements and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The fund financial statements focus on major funds rather than reporting funds by type. Each major fund is reported in separate columns and nonmajor funds are combined in one column. Major funds are funds that have total assets, liabilities, revenues, or expenditures of the fund that are at least 10% of the same element for all funds of its fund type or at least 5% of the same element for all governmental funds combined.

Governmental Funds

General Fund – The general fund is the main operating fund of the Department. 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.

Federal Fund – The federal fund is used to account for federally funded programs for the Department's major activities. This fund is made up entirely by special revenue funds, which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.

Capital Projects Fund – The capital projects fund includes all amounts related to the Department's capital improvement program. It is used to account for financial resources used for the acquisition or construction of major capital facilities.

Other Fund – The other fund is used to account for all financial activities not required to be accounted for in another fund. It includes special revenue and trust funds, which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

Fund Balance

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.

GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include the following:

Restricted – Balances that are restricted for specific purposes by external parties such as creditors, grantors, or other governments.

Committed – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature.

Assigned – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Residual balances that are not contained in the other classifications.

Fiduciary Fund Type

Agency Funds – Agency funds are used to account for assets held by the Department on behalf of outside parties, or on behalf of individuals. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

(d) Cash

Cash include certificates of deposit with original maturities of three months or less. It also includes amounts held in the State Treasury. The State Director of Finance (Director) is responsible for safekeeping of all monies paid into the State Treasury. The Director may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool system. Cash accounts that participate in the investment pool accrue interest based on the weighted average cash balances of each account.

The State's investment pool as of June 30, 2012 included auction rates securities collateralized by student loans. During 2008, a number of the auctions failed and companies without the ability to hold such securities until maturity have taken significant losses. As of June 30, 2012, the State recorded an adjustment for the decrease in fair value of these investments. The Department's allocated share of the adjustment was approximately \$101,000. This amount was recorded in the government-wide financial statements as a decrease in cash in the statement of net assets and

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

unrestricted investment earnings in the statement of activities. In the governmental funds, this amount was recorded as a decrease in cash in the balance sheet and other revenues in the statement of revenues, expenditures, and changes in fund balances – other funds.

Information relating to custodial credit risk of cash deposits and interest rate risk, credit risk, custodial risk, and concentration of credit risk of investments in the State Treasury is available on a statewide basis and not for individual departments or agencies.

(e) Capital Assets

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

When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

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

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

Depreciation expense is recorded in the government-wide financial statements. The Department utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land. The Department has adopted the following capitalization policy:

Asset type	Minimum capitalization amount	Estimated useful life
Land	All	Not applicable
Land improvements	\$ 100,000	15 years
Buildings and improvements	100,000	30 years
Furniture and equipment	5,000	7 years
Vehicles	5,000	5 years
Public library materials	All	5 years

(f) Accumulated Vacation

Employees are credited with vacation at the rate of 96 to 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net assets.

(g) Program Revenues

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

Charges for services – Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided. Revenues in this category include fees charged for meals served, educational classes, use of facilities, transportation services, and use of library materials.

Operating grants and contributions – Program-specific operating and capital grants and contributions include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Governmental grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred.

(h) Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the basic financial statements.

(i) Risk Management

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

(j) Use of Estimates

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

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

(3) Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration, and revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues and budgeted expenditures in the budgetary comparison schedules of the general and federal funds are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii. To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations such as those related to the federal funds.

However, Section 37-41.5 of the Hawaii Revised Statutes allows the DOE to carryover up to 5% each of any appropriation at the end of the fiscal year except for appropriations to fund certain financing agreements. These carryover funds, to the extent not expended or encumbered, lapse at June 30 of the first fiscal year of the next fiscal biennium. As of June 30, 2012, general funds carried over amounted to approximately \$28,150,000, representing less than 2% of appropriations.

For purposes of budgeting, the Department's budgetary fund structure and accounting principles differ from those utilized to present the fund financial statements in conformity with GAAP. The Department's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrances of purchase orders and contract obligations, (2) the recognition of certain receivables, and (3) special revenue funds operating grants accruals and deferrals. These differences represent a departure from GAAP.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2012:

	General	Federal
Excess of revenues over expenditures –		
actual on a budgetary basis	\$ 28,150,204	20,657,414
Reserved for encumbrances at fiscal year-end	83,099,518	38,341,411
Expenditures for liquidation of prior fiscal year		
encumbrances	(113,039,013)	(26,264,534)
Net accrued revenues and expenditures	(2,401,723)	(8,305,025)
Excess (deficiency) of revenues over (under)		
expenditures – GAAP basis	\$ (4,191,014)	24,429,266

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

(4) Cash

Cash at June 30, 2012 consisted of amounts held in State Treasury of approximately \$345,127,000.

(a) Custodial Credit Risk

Cash and deposits with financial institutions are collateralized in accordance with State statutes. 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.

Cash held by charter schools was approximately \$34,568,000 at June 30, 2012. The DOE also maintains cash in banks, which is held separately from cash in the State Treasury. As of June 30, 2012, the carrying amount of total bank deposits was approximately \$5,734,000 and the corresponding bank balances were approximately \$33,202,000. Of this amount, the entire balance is insured by the Federal Deposit Insurance Corporation and collateralized with securities held by the DOE's agent.

(b) 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.

(c) 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.

(d) 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 collateralized repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

(e) Concentration of Credit Risk

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

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

(f) Amounts Held in State Treasury

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, Hawaii Revised Statutes, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements. At June 30, 2012, the amount reported as amounts held in State Treasury reflects the Department's relative position in the State's investment pool and amounted to approximately \$345,127,000. The Department recorded a decrease in its amounts held in State Treasury by approximately \$101,000 during the year ended June 30, 2012.

The Director is responsible for the safekeeping of all monies paid into the State Treasury. The Director may invest 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 deposit, and repurchase agreements with federally insured financial institutions.

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Information regarding the carrying amount and corresponding bank balances of the State's investment pool and collateralization of those balances is included in the comprehensive annual financial report of the State. A portion of the bank balances is covered by federal deposit insurance, or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

The Department's share of the State's investment pool, as summarized in the table below, is 17.8% at June 30, 2012 (amounts in thousands):

	Maturity (in years)			
	Fair value	Less than 1	1 – 5	>5
Investments – primary government:				
Student loan auction rate securities	\$ 225,936	—	—	225,936
Certificates of deposit	263,592	263,592	—	—
U.S. government securities	348,319	168,642	133,821	45,856
Repurchase agreements	103,554	85,950	17,604	—
	<u>\$ 941,401</u>	<u>518,184</u>	<u>151,425</u>	<u>271,792</u>
Investments – fiduciary funds:				
Student loan auction rate securities	\$ 22,208	—	—	22,208
Certificates of deposit	25,909	25,909	—	—
U.S. government securities	34,237	16,576	13,153	4,508
Repurchase agreements	10,178	8,448	1,730	—
	<u>\$ 92,532</u>	<u>50,933</u>	<u>14,883</u>	<u>26,716</u>

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

(5) Capital Assets

The changes in capital assets were as follows:

	<u>Balance, June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2012</u>
Governmental activities:				
Capital asset, not being depreciated:				
Land	\$ 84,248,409	3,990,200	—	88,238,609
Construction in progress	<u>78,561,717</u>	<u>113,423,387</u>	<u>(69,829,815)</u>	<u>122,155,289</u>
Total capital assets not being depreciated	<u>162,810,126</u>	<u>117,413,587</u>	<u>(69,829,815)</u>	<u>210,393,898</u>
Capital assets, being depreciated:				
Land improvements	201,215,652	9,804,335	—	211,019,987
Buildings and improvements	1,829,164,241	55,965,664	—	1,885,129,905
Furniture and equipment	84,168,596	15,835,288	(3,438,292)	96,565,592
Vehicles	10,684,361	437,293	(774,102)	10,347,552
Public library materials	<u>70,520,376</u>	<u>3,855,159</u>	<u>(5,125,988)</u>	<u>69,249,547</u>
Total capital assets being depreciated	<u>2,195,753,226</u>	<u>85,897,739</u>	<u>(9,338,382)</u>	<u>2,272,312,583</u>
Less accumulated depreciation for:				
Land improvements	(92,385,304)	(10,021,401)	—	(102,406,705)
Buildings and improvements	(1,009,222,135)	(50,078,231)	—	(1,059,300,366)
Furniture and equipment	(58,397,020)	(8,314,872)	2,448,458	(64,263,434)
Vehicles	(8,595,579)	(770,907)	702,300	(8,664,186)
Public library materials	<u>(49,641,901)</u>	<u>(7,888,316)</u>	<u>5,125,988</u>	<u>(52,404,229)</u>
Total accumulated depreciation	<u>(1,218,241,939)</u>	<u>(77,073,727)</u>	<u>8,276,746</u>	<u>(1,287,038,920)</u>
Governmental activities, net	<u>\$ 1,140,321,413</u>	<u>126,237,599</u>	<u>(70,891,451)</u>	<u>1,195,667,561</u>

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

Depreciation expense was charged to functions as follows:

		Governmental activities	
School-related	\$	68,599,911	
State and complex area administration		723,247	
Public libraries		7,750,569	
		<hr/>	
Total additions to accumulated depreciation	\$	77,073,727	
		<hr/> <hr/>	

(6) Long-Term Liabilities

The change in the long-term liabilities during the fiscal year ended June 30, 2012 was as follows:

		Accrued compensated absences	Workers' compensation claims
Balance at June 30, 2011	\$	69,046,796	56,232,629
Additions		26,217,388	15,707,081
Reductions		(31,079,037)	(11,927,880)
		<hr/>	<hr/>
Balance at June 30, 2012	\$	64,185,147	60,011,830
		<hr/> <hr/>	<hr/> <hr/>
Due within one year	\$	20,922,644	12,602,484

The compensated absences and workers' compensation liabilities have been paid primarily by the general fund in the past.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

(7) Lease Commitments

The Department leases equipment from third-party lessors under various operating leases expiring through 2022. Future minimum lease rentals under noncancelable operating leases with terms of one year or more at June 30, 2012 were as follows:

	Amounts
Year ending June 30:	
2013	\$ 4,520,000
2014	3,236,000
2015	2,289,000
2016	1,540,000
2017	782,000
2018 – 2022	670,000
	\$ 13,037,000

Total rent expense related to the above leases for the year ended June 30, 2012 amounted to approximately \$5,351,000.

(8) Retirement Benefits

(a) Employees' Retirement System (ERS)

Substantially all eligible employees of the Department are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the ERS of the State, a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor, and disability with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation.

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Notes to Basic Financial Statements

June 30, 2012

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5% the second year, 7.5% the third year, etc.).

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

Contributory Plan

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving five years of credited service. The Department may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.00% for employees covered by Social Security.

Hybrid Plan

Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving five years of credited service. The Department may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

Noncontributory Plan

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Department is required to make all contributions for these members. Employees may retire with full benefits at age 62 years and 10 years of credited service or age 55 and 30 years of credited service or age 55 years and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. Employers contribute 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increase, as of July 1, 2008, to 19.70% for police officers and firefighters, and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

The pension contributions made by the Department for the years ended June 30, 2012, 2011, and 2010 of \$175,613,000, \$178,738,000, and \$174,290,000, respectively, were equal to the required contributions for each year. The contribution rate for the fiscal years ended June 30, 2012, 2011, and 2010 was 15%. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Department.

The ERS issues a comprehensive annual financial report 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, HI 96813

(b) *Post-Retirement Health Care and Life Insurance Benefits*

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

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

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with over 25 years of service, the State pays the entire healthcare premium.

For employees hired after June 30, 2001, 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 based on the self-plan. For employees hired after June 30, 2001, 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.

**DEPARTMENT OF EDUCATION
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Notes to Basic Financial Statements

June 30, 2012

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the Airports Division. The State allocates the ARC to the State component units and proprietary funds based upon a systematic methodology.

For active employees, the employees' contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

The Department's general fund and special federal fund share of the expense for post-retirement health care and life insurance benefits for the fiscal year ended June 30, 2012 were approximately \$87,191,000 and \$6,000,000, respectively. The total expense of approximately \$93,191,000, which was paid by the Department, is included in the basic financial statements.

The Department's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2011 and 2010 were approximately \$94,851,000 and \$92,838,000, respectively.

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, HI 96805-2121

(c) *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 the Department's basic financial statements.

(9) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1,000,000 per occurrence minimum. The policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$225,000,000, except for flood and

**DEPARTMENT OF EDUCATION
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Notes to Basic Financial Statements

June 30, 2012

earthquake, which individually is a \$225,000,000 aggregate loss and terrorism, which is \$50,000,000 per occurrence and a \$25,000 deductible.

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 claims expense coverage, which has a \$100,000 limit per occurrence and a \$1,000 deductible. Losses not covered by insurance are paid from legislative appropriations or the State's General Fund.

General liability claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is \$15,000,000 and for crime loss, \$10,000,000 with no aggregate limit. Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

The State's community hospitals included in the Hawaii Health Systems Corporation are insured by a comprehensive hospital professional liability policy. This policy covers losses from personal injury, professional liability, patient property damage, and employee benefit. This policy covers up to a limit of \$35,000,000 per occurrence and \$39,000,000 in aggregate.

The Department is self-insured for workers' compensation and automobile claims. The Department's estimated reserve losses and loss adjustment costs include the accumulation of estimates for losses and claims reported prior to fiscal year-end, estimates (based on projections of historical developments) of claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The Department believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves are adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

(10) Commitments and Contingencies

(a) Construction Contracts

The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, expenses, supplies, etc. These commitments amounted to approximately \$206,073,000 as of June 30, 2012.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Notes to Basic Financial Statements

June 30, 2012

(b) Litigation

The Department is a party to various legal proceedings. Although the Department and its counsel are unable to express opinions as to the outcome of the litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the Department because any judgments against the Department are judgments against the State and would be paid by the legislative appropriation of the State General Fund and not by the Department.

(11) Food Distribution Program

U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS), has delegated to the Hawaii Child Nutrition Programs office (HCNP) the administrative responsibility of the Food Distribution Program. HCNP is the State Agency that distributes USDA foods to schools (public, private, and charter), institutions and organizations that participate in the National School Lunch Program (NSLP) and Summer Food Service Program (SFSP). Hawaii's entitlement is determined in part by the number of lunches served under the NSLP and meals in SFSP of each year. The amount charged to the Department entitlement is based upon the FNS estimated cost to purchase the commodities. The estimated commodity prices can be found by referring to: <http://www.fns.usda.gov/fdd/pcims/Nov15CommodityFiles.htm> – FNS November 15 Commodity File Report for the SY 2012 Prices. Bonus commodities are USDA foods that are additional to Hawaii's entitlement balance.

The Department received \$5,004,509 of commodities for the fiscal year ended June 30, 2012. No bonus commodities were received for the fiscal year ended June 30, 2012.

(12) Transfers

Transfers between funds occur when a fund receiving resources transfers resources to a fund where resources are to be expended, or when nonrecurring or nonroutine transfers of equity between funds occur.

Act 180, Session Laws of Hawaii (SLH) 2010, Section 3 provides a general fund appropriation to pay for debt service on general obligation bonds issued for the Department for the fiscal years ended June 30, 2012 and 2013. The payments are budgeted directly to the Department of Budget and Finance for the Department's share of debt service. The total amount of the debt service appropriated for the fiscal years 2012 and 2013 are \$222,989,025 and \$254,331,904, respectively. The debt service costs for the Department totaled \$215,164,302 for the fiscal year ended June 30, 2012.

SUPPLEMENTARY INFORMATION

Department of Education
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal year ended June 30, 2012

Federal grantor/pass-through grantor/program title	CFDA number ¹	Pass-through entity identifying number	Federal expenditures	Amount provided to subrecipient
U.S. Department of Agriculture:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	—	\$ 10,136,549	\$ 686,041
National School Lunch Program:	10.555			
Cash assistance		—	37,929,306	2,423,052
Cash assistance (commodities)		—	5,004,509	—
Subtotal - National School Lunch Program			<u>42,933,815</u>	<u>2,423,052</u>
Special Milk Program for Children	10.556	—	1,750	1,750
Summer Food Service Program for Children:	10.559			
Cash assistance		—	424,771	407,494
State administrative expense		—	67,049	—
Subtotal - Summer Food Service Program for Children			<u>491,820</u>	<u>407,494</u>
Total - Child Nutrition Cluster			<u>53,563,934</u>	<u>3,518,337</u>
Child and Adult Care Food Program	10.558	—	6,836,830	6,836,830
State Administrative Expense for Child Nutrition	10.560	—	801,433	—
Equipment Assistance Grant	10.579	—	26,525	—
Fresh Fruit and Vegetable Program:	10.582		1,243,583	148,933
Community Facilities Loans and Grants	10.766	—	1,140,368	—
Passed-through State Department of Health:				
FSNE Program-Waimanalo	10.561	ASO Log No. 11-077	(543)	—
Total - U.S. Department of Agriculture			<u>63,612,130</u>	<u>10,504,100</u>
U.S. Department of Commerce:				
Integrated Science Curriculum Grant	11.473	—	82,213	—
Total - U.S. Department of Commerce			<u>82,213</u>	<u>—</u>
U.S. Department of Defense:				
Thinking Through Science	12.030	—	344,520	—
DoD Impact Aid	12.558	—	1,650,410	—
DoDEA Grant Program:	12.556			
Expanding Virtual Learning Opportunities		—	528,187	—
Implement Blended Learning		—	101,322	—
AVID Radford Complex		—	9,280	—
Total - DoDEA Grant Program			<u>638,789</u>	<u>—</u>
Bridging the Mathematical Continuum	650109	—	50,250	—
Passed-through U.S. Pacific Command:				
Joint Venture Education Forum	000913	99-0266482	835,955	—
Total - U.S. Department of Defense			<u>3,519,924</u>	<u>—</u>

¹ Other identifying number used if no CFDA number available.

See accompanying independent auditors' report and note to schedule of expenditures of federal awards.

Department of Education
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal year ended June 30, 2012

Federal grantor/pass-through grantor/program title	CFDA number ¹	Pass-through entity identifying number	Federal expenditures	Amount provided to subrecipient
U.S. Department of Education:				
Adult Education – State Grant Program	84.002	—	\$ 1,876,036	\$ —
Title I, Part A Cluster:				
Title I – Grants to Local Educational Agencies	84.010	—	48,383,580	—
Title I – Grants to Local Educational Agencies – ARRA	84.389	—	13,294,310	—
Total - Title I, Part A Cluster			61,677,890	—
Migrant Education – State Grant Program	84.011	—	907,077	—
Title I – Program for Neglected and Delinquent Children	84.013	—	355,855	—
Special Education Cluster:				
Grants to States	84.027	—	35,807,825	—
Preschool Grants	84.173	—	932,374	—
Grants to States – ARRA	84.391	—	4,121,754	—
Preschool Grants – ARRA	84.392	—	508,211	—
Total - Special Education Cluster			41,370,164	—
Impact Aid	84.041	—	25,215,658	—
MEP Consortium	84.144	—	203,209	—
Native Hawaiian Education	84.185	—	12,995	—
Safe and Drug-Free School and Communities – State Grants	84.186	—	667,101	—
Education for Homeless Children and Youth	84.196	—	225,805	—
Even Start – State Educational Agencies	84.213	—	82,000	—
Even Start – Migrant Education	84.214	—	284,360	—
Fund for the Improvement of Education	84.215	—	3,136,885	—
Twenty-First Century Community Learning Centers	84.287	—	5,776,124	—
Education Technology State Grants Cluster:				
Education Technology State Grants	84.318	—	355,927	—
Education Technology State Grants – ARRA	84.386	—	1,367,824	—
Total - Education Technology State Grants Cluster			1,723,751	—
Advanced Placement Program	84.330	—	223,772	—
Native Hawaiian Education	84.362	—	545,762	—
English Language Acquisition Grants	84.365	—	2,650,185	—
Mathematics and Science Partnerships	84.366	—	1,087,817	—
Improving Teacher Quality State Grants	84.367	—	16,901,644	—
Grants for State Assessments and Related Activities	84.369	—	3,483,364	—
Statewide Longitudinal Data Systems	84.372	—	957,591	—

¹ Other identifying number used if no CFDA number available.

See accompanying independent auditors' report and note to schedule of expenditures of federal awards.

Department of Education
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal year ended June 30, 2012

Federal grantor/pass-through grantor/program title	CFDA number ¹	Pass-through entity identifying number	Federal expenditures	Amount provided to subrecipient
U.S. Department of Education (continued):				
School Improvement Grants Cluster:				
School Improvement Grants	84.377	————	\$ 311,281	\$ —
School Improvement Grants – ARRA	84.388	————	4,026,700	—
Total - School Improvement Grants Cluster			4,337,981	—
Education for Homeless Children and Youth – ARRA	84.387	————	22,669	—
Common Core of Data Survey Project	500000	————	7,014	—
NAEP State Coordinator	650140	————	174,774	—
Passed-through Office of the State Director for Vocational Education:				
Career and Technical Education – Basic Grants to States	84.048	V048A09 – V048A10	2,447,097	—
Passed-through State Department of Human Services:				
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	H126A70015	70,418	—
Passed-through Alu Like, Inc.:				
Native Hawaiian Career and Technical Education	84.259	VE1011-01-02-2.3	228,623	—
Passed-through University of Hawaii:				
Gear Up Hawaii	84.334	P334S050013	231,327	—
Native Hawaiian Education	84.362A	S362A07 – S362A11	1,624,015	—
Total - Passed-through University of Hawaii			1,855,342	—
Passed-through National Center of Education, University of Minnesota:				
General Supervision Enhancement Grant	84.373	H373X070021	15,737	—
Passed-through Office of the Governor:				
State Fiscal Stabilization Fund, Part A & B – ARRA	84.394	S394A090012	900,000	—
State Fiscal Stabilization Fund, Race-to-the-Top - ARRA	84.395	S395A100051	9,530,084	—
Education Jobs Fund – ARRA	84.410	S410A100012	33,025,567	—
Total - Passed-through Office of the Governor			43,455,651	—
Passed-through Research Corporation of the University of Hawaii:				
Ulu Pono – McKinley CSA-KCC FY 09	650740	CB-18240-09-60-A-15	64,940	—
Total - U.S. Department of Education			222,045,291	—
U.S. Department of Health and Human Services:				
Cooperative Agreements to Support:				
Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	————	215,750	—
Passed-through State Department of Health:				
Peer Education Counselors PEP	93.243	09-128	48,406	—
Passed-through State Department of Human Services:				
Child Care and Development Block Grant	93.575	DHS-11-CCPO	243,383	—
Middle School Uplink Program	93.558	DHS-10-ETPO-145	2,157,773	—
Total - Passed-through State Department of Human Services			2,401,156	—
Total - U.S. Department of Health and Human Services			2,665,312	—

¹ Other identifying number used if no CFDA number available.

See accompanying independent auditors' report and note to schedule of expenditures of federal awards.

Department of Education
State of Hawaii

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal year ended June 30, 2012

Federal grantor/pass-through grantor/program title	CFDA number ¹	Pass-through entity identifying number	Federal expenditures	Amount provided to subrecipient
U.S. Department of Justice:				
Passed-through State Attorney General: Cyber Safety and Internet Crime Prevention	16.738	09-DJ-09	\$ 125,000	\$ —
Passed-through State Department of Justice: Improving School Community Climate Project – ARRA	16.803	09-SU-24	115,947	—
Total - U.S. Department of Justice			<u>240,947</u>	<u>—</u>
U.S. Department of Transportation:				
Passed-through State Department of Transportation: State and Community Highway Safety	20.600	SA11-08 / OP11-05	4,306	—
Total - U.S. Department of Transportation			<u>4,306</u>	<u>—</u>
Corporation for National and Community Service:				
Passed-through State Department of Labor: Learn and Serve America – School and Community Based Programs	94.004	09KSPHI001	228,365	—
Total - Corporation for National and Community Service			<u>228,365</u>	<u>—</u>
Environmental Protection Agency:				
Environmental Education Grants	66.951		7,585	—
Passed-through State Department of Health: State Clean Diesel Program – ARRA	66.040	DS-96968001	168,609	—
Total - Environmental Protection Agency			<u>176,194</u>	<u>—</u>
Institute of Museum and Library Services:				
Library Services and Technology Act State Grant	45.310	—	1,354,480	—
Total - Institute of Museum and Library Services			<u>1,354,480</u>	<u>—</u>
Grand Total			<u>\$ 293,929,162</u>	<u>\$ 10,504,100</u>

¹ Other identifying number used if no CFDA number available.

See accompanying independent auditors' report and note to schedule of expenditures of federal awards.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Note to Schedule of Expenditures of Federal Awards

June 30, 2012

Basis of Presentation

The accompanying schedule of expenditure of federal awards (SEFA) includes federal grant activity of the Department of Education (DOE), State Library (Library), and Public Charter Schools (PCS) where the DOE prepares the SEFA, based on information provided by the Library and PCS, to combine federal financial data for the three departments, in aggregate known as the Department. While not legally separate, the DOE does not have fiscal or oversight authority for the Library or PCS. The DOE has determined that PCS balances are significant, but not material, and relies on financial information, which have been audited by a third-party and coordinated by PCS.

The SEFA is presented on the cash basis of accounting, and in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PART II

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*



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 Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Education of the State of Hawaii (the Department), as of and for the year ended June 30, 2012, and have issued our report thereon dated March 27, 2013. 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

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 27, 2013

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Office of the Auditor, 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 27, 2013

PART III

**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education:

Compliance

We have audited the Department of Education of the State of Hawaii's (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct or material effect on each of the Department's major federal programs for the year ended June 30, 2012. The Department's major federal programs are identified in the summary of auditor's 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.

As described in item 2012-01 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Cash Management compliance requirement that are applicable to its Title I, Part A Cluster, Special Education Cluster, Fund for the Improvement of Education, Twenty-First Century Community Learning Centers, Improving Teacher Quality State Grants, Grants for State Assessments and Related Activities, School Improvement Grants Cluster, and Education Technology State Grants Cluster programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.



In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-02 to 2012-03.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-01 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We did not consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as significant deficiencies.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's responses and, accordingly, we express no opinion on the responses.



This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Office of the Auditor, 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 27, 2013

PART IV

Schedule of Findings and Questioned Costs

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified opinions for the governmental activities, each major fund and the aggregate remaining fund information of the Department of Education, State of Hawaii (the Department), which collectively comprise the Department's basic financial statements.**

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None noted.**

Material weaknesses: **None noted.**

(c) Noncompliance, which is material to the financial statements: **None noted.**

(d) Significant deficiencies in internal control over major programs: **None noted.**

Material weaknesses: **Yes, see Finding 2012-01**

(e) The type of report issued on compliance for major programs: **Unqualified for all major programs, except for U.S. Department of Education Title I, Part A Cluster, Special Education Cluster, Fund for the Improvement of Education, Twenty-First Century Community Learning Centers, Improving Teacher Quality State Grants, Grants for State Assessments and Related Activities, School Improvement Grants Cluster, and Education Technology State Grants Cluster, which were qualified.**

(f) Audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, see Findings 2012-01 to 2012-03**

(g) Major programs:

U.S. Department of Agriculture:

Child Nutrition Cluster:

School Breakfast Program – CFDA No. 10.553

National School Lunch Program – CFDA No. 10.555

Special Milk Program for Children – CFDA No. 10.556

Summer Food Service Program for Children – CFDA No. 10.559

Child and Adult Care Food Program – CFDA No. 10.558

U.S. Department of Education:

Title I, Part A Cluster:

Title I – Grants to Local Educational Agencies – CFDA No. 84.010

Title I – Grants to Local Educational Agencies – ARRA – CFDA No. 84.389

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Special Education Cluster:

- Grants to States – CFDA No. 84.027
- Preschool Grants – CFDA No. 84.173
- Grants to States – ARRA – CFDA No. 84.391
- Preschool Grants – ARRA – CFDA No. 84.392

Impact Aid –CFDA No. 84.041

Fund for the Improvement of Education – CFDA No. 84.215

Twenty-First Century Community Learning Centers – CFDA No. 84.287

Education Technology State Grants Cluster:

- Education Technology State Grants – CFDA No. 84.318
- Education Technology State Grants – ARRA – CFDA No. 84.386

Improving Teacher Quality State Grants – CFDA No. 84.367

Grants for State Assessments and Related Activities – CFDA No. 84.369

School Improvement Grants Cluster:

- School Improvement Grants – CFDA No. 84.377
- School Improvement Grants – ARRA – CFDA No. 84.388

Passed through Office of the Governor:

- State Fiscal Stabilization Fund, Race to the Top – ARRA – CFDA No. 84.395

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(2) Federal Award Findings and Questioned Costs

Finding 2012-01– Cash Management

Information on Federal Programs

U.S. Department of Education:

Title I, Part A Cluster: CFDA No. 84.010, Grants to Local Educational Agencies; Award Years: July 1, 2009 to September 30, 2010, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30 2012 Grant Nos. S010A090011A, S010A100011A, S010A110011-11B, respectively; CFDA No. 84.389, Title I – Grants to Local Educational Agencies – ARRA; Award Year: February 17, 2009 to September 30, 2011, Grant No. S389A090011.

CFDA No. 84.215, Fund for the Improvement of Education; Award Years: July 1, 2007 to September 30, 2011, July 26, 2010 to July 25, 2011, July 10, 2008 to July 9, 2013, October 1, 2010 to September 30, 2012; Federal Award Nos. U215X070265, U215K100045, S215L080728, S215L100057, respectively.

CFDA No. 84.287, Twenty-First Century Community Learning Centers; Award Years: July 1, 2009 to September 30, 2010, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30, 2012; Federal Award Nos. S287C090011, S287C100011, S287C110011, respectively.

CFDA No. 84.367, Improving Teacher Quality State Grants; Award Years: July 1, 2009 to September 30, 2010, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30, 2012; Federal Award Nos. S367A090010A, S367A100010A, S367A110010-11B, respectively.

Special Education Cluster: CFDA No. 84.027, Grants to States; CFDA No. 84.173, Preschool Grants; CFDA No. 84.391, Grants to States – ARRA; CFDA No. 84.392, Preschool Grants – ARRA; Award Years: July 1, 2009 to September 30, 2010, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30, 2013, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30, 2012, February 17, 2009 to September 30, 2010, February 17, 2009 to September 30, 2010; Federal Award Nos. H027A090026A, H027A100026A, H027A110026-11A, H173A100083, H173A110083, H391A090026A, H392A090083A, respectively.

CFDA No. 84.369, Grants for State Assessments and Related Activities; Award Years: July 1, 2010 to September 30, 2011, July 1, 2011 to September 30 2012; Federal Award Nos. S369A100012, S369A110012, respectively.

School Improvement Grants Cluster: CFDA No. 84.377, School Improvement Grants; CFDA No. 84.388, ARRA School Improvement Grant; Award Years: July 1, 2009 to September 30, 2013, February 17, 2009 to September 30, 2013; Federal Award Nos. S377A090012A, S388A090012A, respectively.

Education Technology Cluster: CFDA No. 84.318, NCLB – Educational Technology State Grant; CFDA No. 84.386, Education Technology State Grants, Recovery Act; Award Years: July 1, 2009 to

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

September 30, 2010, July 1, 2010 to September 30, 2011, February 17, 2009 to September 30, 2010;
Federal Award Nos. S318X09011A, S318X100011, S386A090011, respectively.

Specific Requirements/Criteria

In accordance with 31 CFR Part 205.12, "reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

Condition

During our test work over cash management, we noted the following for U.S. Department of Education programs:

For Title I, Part A Cluster: CFDA No. 84.010, Grants to Local Educational Agencies, Award Nos. S010A090011A, S010A100011A, and S010A110011-11B; CFDA No. 84.389, Title I – Grants to Local Educational Agencies – ARRA, Award No. S389A090011, of 65 cash reimbursements draw down requests, 48 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For CFDA No. 84.215, Fund for the Improvement of Education, Award Nos. U215X070265, U215K100045, S215L080728, and S215L100057, of 65 cash reimbursements draw down requests, 59 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For CFDA No. 84.287, Twenty-First Century Community Learning Centers, Award Nos. S287C090011 and S287C100011, of 47 cash reimbursements draw down requests, 16 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For CFDA No. 84.367, Improving Teacher Quality State Grants, Award Nos. S367A090010A, S367A100010A, and S367A110010-11B, of 65 cash reimbursements draw down requests, 26 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For Special Education Cluster: CFDA No. 84.027, Grants to States, Award Nos. H027A090026A, H027A100026A, and H027A110026-11A; CFDA No. 84.173, Preschool Grants, Award No. H173A100083; CFDA No. 84.391, Grants to States – ARRA, Award No. H391A090026A; CFDA No. 84.392, Preschool Grants – ARRA, Award No. H392A090083A, of 65 cash reimbursements draw down requests, 35 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For CFDA No. 84.369, Grants for State Assessments and Related Activities, Award Nos. S369A100012 and S369A110012, of 25 cash reimbursements draw down requests, 7 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

For School Improvement Grants Cluster: CFDA No. 84.388, ARRA School Improvement Grant, Award No. S388A090012A, of 38 cash reimbursements draw down requests, 15 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

For Education Technology Cluster: CFDA No. 84.386, Education Technology State Grants, Recovery Act, Award No. S386A090011, of 30 cash reimbursements draw down requests, 3 included amounts for which the DOE did not pay prior to the receipt of the federal funds.

All expenditures were paid shortly after requests for reimbursement were submitted. Therefore, this is a timing issue and not a questioned cost issue.

Cause

The above conditions were primarily caused by a lack of management oversight.

Effect

Failure to comply with federal regulations may impact the amount of federal funding received. In addition, the DOE could incur an interest liability during periods where the draw downs are in excess of the related federal expenditures and do not minimize the time elapsing between the transfer of funds and disbursement by the DOE.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that DOE management reinforce the internal controls over the cash management process to ensure that the federal expenditure amounts are properly calculated and that reimbursement draw downs including only those that are expended prior to receipt of Federal reimbursement.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Finding 2012-02 – Procurement, Suspension, and Debarment (Three Quotes)

Information on Federal Programs

U.S. Department of Education:

School Improvement Grants Cluster: CFDA No. 84.377, School Improvement Grants; CFDA No. 84.388, ARRA School Improvement Grant; July 1, 2009 to September 30, 2013, February 17, 2009 to September 30, 2013; Federal Award Nos. S377A090012A, S388A090012A, respectively.

Specific Requirements/Criteria

In accordance with 34 CFR 80.46 “When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.” HRS 103D; HAR 3-120-4 and 3-122-75.

Pursuant to HRS and HAR, the DOE is required to obtain no less than three quotes for purchases between \$5,000 to \$15,000; for purchases between \$15,000 to \$50,000, the three quotes must be written.

Pursuant to the HAR 3-120-4 and 3-120-5, when procurement is made that is exempt to the procurement code; the request for the exemption must be approved by the chief procurement officer.

Condition

We noted certain internal control and compliance issues related to the procurement process as follows:

Of a sample of 25 that was tested for the School Improvement Grants Cluster, we noted 1 instance related to CFDA No. 84.388, ARRA School Improvement Grant, Award No. S388A090012A, where there was no documentation supporting that quotations were solicited for these goods and services.

Cause

The above conditions were primarily due to lack of management oversight.

Effect

The Hawaii Procurement Code, HRS 103D, was developed in part to ensure that public money is expended in the best interests of the public and that funds are expended in an equitable manner, the conditions noted above resulted in noncompliance with HRS 103D.

Questioned Costs

None

Systemic or Isolated

Systemic

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Recommendation

We recommend that DOE be more diligent in complying with applicable procurement requirements. This may include additional training and workshops where necessary. Also, school-level administrators where purchases originate should ensure that all required documents are obtained and included in the procurement file prior to authorizing the purchase. All exceptions to HRS 103D and applicable HAR should be clearly noted on the applicable purchase orders.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Finding 2012-03 – Procurement, Suspension, and Debarment (HCE)

Information on Federal Programs

U.S. Department of Education:

Title I, Part A Cluster: CFDA No. 84.010, Grants to Local Educational Agencies; Award Years: July 1, 2009 to September 30, 2010, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30 2012; Grant Nos. S010A090011A, S010A100011A, S010A110011-11B, respectively; CFDA No. 84.389, Title I – Grants to Local Educational Agencies – ARRA; Award Year: February 17, 2009 to September 30, 2011, Grant No. S389A090011.

CFDA No. 84.215, Fund for the Improvement of Education; Award Years: July 1, 2007 to September 30, 2011, July 26, 2010 to July 25, 2011, July 10, 2008 to July 9, 2013, October 1, 2010 to September 30, 2012; Federal Award Nos. U215X070265, U215K100045, S215L080728, S215L100057, respectively.

CFDA No. 84.287, Twenty-First Century Community Learning Centers; Award Years: July 1, 2009 to September 30, 2010, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30, 2012; Federal Award Nos. S287C090011, S287C100011, S287C110011, respectively.

CFDA No. 84.367, Improving Teacher Quality State Grants; Award Years: July 1, 2009 to September 30, 2010, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30, 2012; Federal Award Nos. S367A090010A, S367A100010A, S367A110010-11B, respectively.

Special Education Cluster: CFDA No. 84.027, Grants to States; CFDA No. 84.173, Preschool Grants; CFDA No. 84.391, Grants to States – ARRA; CFDA No. 84.392, Preschool Grants – ARRA; Award Years: July 1, 2009 to September 30, 2010, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30, 2013, July 1, 2010 to September 30, 2011, July 1, 2011 to September 30, 2012, February 17, 2009 to September 30, 2010, February 17, 2009 to September 30, 2010; Federal Award Nos. H027A090026A, H027A100026A, H027A110026-11A, H173A100083, H173A110083, H391A090026A, H392A090083A, respectively.

School Improvement Grants Cluster: CFDA No. 84.377, School Improvement Grants; CFDA No. 84.388, ARRA School Improvement Grant; Award Years: July 1, 2009 to September 30, 2013, February 17, 2009 to September 30, 2013; Federal Award Nos. S377A090012A, S388A090012A, respectively.

U.S. Department of Agriculture:

Child Nutrition Cluster – CFDA No. 10.553, School Breakfast Program; CFDA No. 10.555, National School Lunch Program; CFDA No. 10.556, Special Milk Program for Children; CFDA No. 10.559, Summer Food Services Program for Children; Award Years: October 1, 2010 to September 30, 2011, October 1, 2011 to September 30 2012; Federal Award Nos. 7H1300HI3 FY 11, 7H1300HI3 FY 12, respectively.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Specific Requirements/Criteria

In accordance with 34 CFR 80.46 “When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.” HRS 103D; HAR 3-120-4 and 3-122-75.

Effective July 1, 2011, HRS 103D-310(c) requires all offerors to produce documents to the procuring officer to demonstrate compliance for all contracts awarded pursuant to sections 103D-302, 103D-303, 103D-304, and 103D-306, and for contracts and procurements of \$2,500 or more awarded pursuant to section 103D-305. Hawaii Compliance Express (HCE) is an electronic system that expedites a vendor’s ability to furnish proof of compliance with the requirements of HRS 103D-310(c), by providing an online “Certificate of Vendor Compliance” for the vendor when doing business with State or County agencies. The DOE provided implementation guidance requiring procuring officers to obtain a “Certificate of Vendor Compliance” pursuant to HRS 103D-310(c), effective October 1, 2011.

Pursuant to the HAR 3-120-4 and 3-120-5, when procurement is made that is exempt to the procurement code; the request for the exemption must be approved by the chief procurement officer.

Condition

We noted certain internal control and compliance issues related to the procurement process as follows:

Of a sample of 65 that was tested for the Title I, Part A Cluster, we noted 1 instance before October 1, 2011 related to CFDA No. 84.389, Title I – Grants to Local Educational Agencies – ARRA, Award No. S389A090011, where there was no evidence an HCE “Certificate of Vendor Compliance” was obtained.

Of a sample of 25 that was tested for the Fund for the Improvement of Education, we noted 2 instances after October 1, 2011 related to CFDA No. 84.215, Fund for the Improvement of Education, Award No. S215L080728, where there was no evidence an HCE “Certificate of Vendor Compliance” was obtained.

Of a sample of 65 that was tested for the Twenty-First Century Community Learning Centers, we noted 1 instance before October 1, 2011 related to CFDA No. 84.287, Twenty-First Century Community Learning Centers, Award No. S287C100011, where there was no evidence an HCE “Certificate of Vendor Compliance” was obtained.

Of a sample of 25 that was tested for the Improving Teacher Quality State Grants, we noted 3 instances before October 1, 2011 related to CFDA No. 84.367, Improving Teacher Quality State Grants, Award No. S367A090010A, where there was no evidence an HCE “Certificate of Vendor Compliance” was obtained.

Of a sample of 65 that was tested for the Special Education Cluster, we noted 6 instances before October 1, 2011 and 1 instance after October 1, 2011 related to CFDA No. 84.027, Grants to States, CFDA No. 84.391, Grants to States – ARRA, and CFDA No. 84.392, Preschool Grants – ARRA, Award Nos. H027A090026A, H027A100026A, H391A090026A, and H392A090083A, where there was no evidence an HCE “Certificate of Vendor Compliance” was obtained.

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Of a sample of 25 that was tested for the School Improvement Grants Cluster, we noted 1 instance before October 1, 2011 related to CFDA No. 84.388, ARRA School Improvement Grant, Award No. S388A090012A, where there was no evidence an HCE "Certificate of Vendor Compliance" was obtained.

Of a sample of 25 that was tested for the Child Nutrition Cluster, we noted 1 instance after October 1, 2011 where there was no evidence an HCE "Certificate of Vendor Compliance" was obtained.

Cause

The legislation requiring the HCE certification was unexpected and DOE could not provide implementation guidance until October 1, 2011. The instances noted above that occurred after October 1, 2011, were primarily caused by a lack of management oversight.

Effect

The Hawaii Procurement Code, HRS 103D, was developed in part to ensure that public money is expended in the best interests of the public and that funds are expended in an equitable manner, the conditions noted above resulted in noncompliance with HRS 103D.

Questioned Costs

None

Systemic or Isolated

Systemic

Recommendation

We recommend that DOE be more diligent in complying with applicable procurement requirements. This may include additional training and workshops where necessary. Also, school-level administrators where purchases originate should ensure that all required documents are obtained and included in the procurement file prior to authorizing the purchase.

Views of Responsible Officials and Planned Corrective Action

Refer to the Response of Affected Agency.

PART V

Corrective Action Plan

(Provided by the Department of Education, State of Hawaii)



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

March 27, 2013

KPMG LLP
Pauahi Tower, Suite 2100
1003 Bishop Street
Honolulu, HI 96813-3421

Ladies and Gentlemen:

The Single Audit of the State of Hawaii Department of Education (HIDOE) for the fiscal year ended June 30, 2012 was completed by the March 31, 2013 Federal deadline. The number of audit findings has decreased from eight (8) for FY 2011 to three (3) for FY 2012. HIDOE will continue its efforts to decrease the audit findings even further. We are pleased that HIDOE received an unqualified opinion on its financial statements.

We have reviewed your audit findings and recommendations and corrective action plans have been prepared. In accordance with OMB Circular A-133, the following pages contain the **Corrective Action Plan** for the year ended June 30, 2012 and the **Summary Schedule of Prior Audit Findings** for the year ended June 30, 2011.

Very truly yours,

A handwritten signature in blue ink, appearing to read "K. Matayoshi".

Kathryn S. Matayoshi
Superintendent

KSM:dy

Attachments

c: Internal Audit Office

**STATE OF HAWAII DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2012**

FEDERAL AWARD FINDINGS

2012-01 Cash Management

(Pages 55 to 57)

Corrective Action Plan

The DOE records expenditures at the time payments are posted to the DOE Financial Management System (FMS) by all schools and state administrative offices. As standard procedures, the DOE Vendor Payment Unit verifies the posted payments before issuing checks to vendors. By definition, this results in a period of time between payment posting and check issuance.

The DOE Accounting Section draws federal funds based on the payment-posted expenditures in the FMS. During the 2011 audit, the auditor raised concerns over the time that has elapsed between the payment posting date and the date that the check is issued to the vendors.

To address the 2011 Cash Management finding, effective July 1, 2012, the DOE Accounting Section changed its procedures for drawing of federal funds to ensure checks have been issued prior to the drawdown.

The 2011 finding is a repeat finding for 2012 since the Cash Management finding was not communicated to DOE until on or about March 31, 2012, after which the DOE implemented the corrective action plan effective July 1, 2012.

*Contact Person: Trisha Kaneshiro, Fiscal Specialist
Accounting Services Branch
Office of Fiscal Services*

Completion Date: July 1, 2012

Corrective Action Plan

The Department of Education, Office of Fiscal Services, Procurement and Contracts Branch (PCB) acknowledges room for improvement in our procurement processes. However, we note that there was only 1 instance out of 25 purchase orders tested at the school level, and that this was only 1 federal program of several that had been audited for the same engagement.

PCB continues to provide training opportunities on procurement and contracts issues annually, and has developed an online procurement and contracts training module that provides an asynchronous learning environment to a target audience of school/program administrators, school administrative services assistants (SASAs), account clerks, administrative services assistants (ASAs), and complex area business managers (CABMs) This online procurement and contracts training module allows for greater access to the information and requirements without impacting class time and is available throughout the year.

The training covers the various procurement methods, including price lists, vendor lists, small purchase and exempt procurement for goods and services (\$0 - \$24,999), exempt, sole source, IFB, RFP, professional services, emergency procurement, and MOA/MOU procurements (\$25,000 and above). PCB also maintains a database of procurement and contracting flowcharts, checklists, forms, and instructions/guidelines and is available to all DOE employees as necessary for review and reference. DOE employees are also encouraged to contact PCB if there are further questions that may arise or to seek additional assistance.

PCB will continue to communicate procurement and contracts information through an annual "opening of school/office" memo to remind all administrators and support staff of procurement and contracts requirements. PCB will continue to work with the CABMs to perform reviews of school level procurement transactions to ensure ongoing compliance. We have developed and will continue to provide additional tools and/or checklists for schools/offices to utilize to ensure that proper procurement / contract documentation is placed in the procurement file. PCB will continue to work with Federal program managers who will assist their program participants with compliance to the procurement code, whether for federal or general fund procurement transactions. We have developed and will continue to provide for our federal program managers procurement / contracting audit tools and/or checklists for their use in monitoring their programs. Finally, school level administrators and support staff must be more diligent in complying with applicable procurement requirements, as outlined in training and notifications to the federal program participants.

*Contact Person: Andrell Beppu Aoki, Director
 Procurement and Contracts Branch
 Office of Fiscal Services*

Anticipated Completion Date: Continuous

Corrective Action Plan

The Department of Education, Office of Fiscal Services, Procurement and Contracts Branch (PCB) acknowledges room for improvement in our procurement processes. However, we note that there were only 4 out of 16 instances where there was no evidence that an HCE "Certificate of Vendor Compliance" had been obtained at the school level after the October 1, 2011 implementation date.

It must be noted that, upon the enactment of Act 190, Session Laws of Hawaii 2011, the Department had voiced concerns about its ability to implement the new law as the DOE works with thousands of vendors who would need to be informed of the new law and provide an adequate period for the Department and all affected vendors to become compliant with the new requirements. After consulting with the State Procurement Office and the Department of the Attorney General, it was determined that even though the law took effect on July 1, 2011, agencies would need sufficient time to ramp up for implementation and could argue that they are using their best efforts to implement the new law while still being compliant. To that affect, DOE held several planning sessions to determine how best to notify vendors, schools & offices of the new requirements and to come up with a procedural guideline for all. The Department set an October 1, 2011 implementation date in order to provide adequate time for vendors to register with Hawaii Compliance Express and train schools on the new requirements.

PCB continues to provide training opportunities on procurement and contracts issues annually, and has developed an online procurement and contracts training module that provides an asynchronous learning environment to a target audience of school/program administrators, school administrative services assistants (SASAs), account clerks, administrative services assistants (ASAs), and complex area business managers (CABMs)) This online procurement and contracts training module allows for greater access to the information and requirements without impacting class time and is available throughout the year.

The training covers the various procurement methods, including price lists, vendor lists, small purchase and exempt procurement for goods and services (\$0 - \$24,999), exempt, sole source, IFB, RFP, professional services, emergency procurement, and MOA/MOU procurements (\$25,000 and above). PCB also maintains a database of procurement and contracting flowcharts, checklists, forms, and instructions/guidelines and is available to all DOE employees as necessary for review and reference. DOE employees are also encouraged to contact PCB if there are further questions that may arise or to seek additional assistance.

PCB will continue to communicate procurement and contracts information through an annual "opening of school/office" memo to remind all administrators and support staff of procurement and contracts requirements. PCB will continue to work with the CABMs to perform reviews of school level procurement transactions to ensure ongoing compliance. We have developed and will continue to provide additional tools and/or checklists for schools/offices to utilize to ensure that proper procurement / contract documentation is placed in the procurement file. PCB will continue to work

with Federal program managers who will assist their program participants with compliance to the procurement code, whether for federal or general fund procurement transactions. We have developed and will continue to provide for our federal program managers procurement / contracting audit tools and/or checklists for their use in monitoring their programs. Finally, school level administrators and support staff must be more diligent in complying with applicable procurement requirements, as outlined in training and notifications to the federal program participants.

*Contact Person: Andrell Beppu Aoki, Director
 Procurement and Contracts Branch
 Office of Fiscal Services*

Anticipated Completion Date: Continuous

PART VI

Summary Schedule of Prior Audit Findings
(Provided by the Department of Education, State of Hawaii)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Prior Fiscal Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

2011-01 Agency Fund – Local Schools Funds

(Pages 55 to 56 of the Prior Year June 30, 2011 Report)

(Pages 51 to 52 of the June 30, 2010 Report)

(Pages 64 to 67 of the June 30, 2009 Report)

(Pages 64 to 66 of the June 30, 2008 Report)

(Pages 68 to 69 of the June 30, 2007 Report)

(Pages 57 to 58 of the June 30, 2006 Report)

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Financial Statement Findings.*

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-02 Eligibility

*(Page 57 of the Prior Year June 30, 2011 Report)
(Pages 62 to 63 of the June 30, 2010 Report)*

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

2011-03 Cash Management

*(Pages 58 to 60 of the Prior Year June 30, 2011 Report)
(Pages 60 to 61 of the June 30, 2010 Report)
(Pages 76 to 77 of the June 30, 2009 Report)
(Pages 74 to 76 of the June 30, 2008 Report)
(Pages 71 to 73 of the June 30, 2007 Report)
(Page 69 of the June 30, 2006 Report)*

Status -- *Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2012-01.*

2011-04 Subrecipient Monitoring

*(Pages 61 to 62 of the Prior Year June 30, 2011 Report)
(Pages 74 to 75 of the June 30, 2010 Report)
(Pages 93 to 95 of the June 30, 2009 Report)*

Status -- *Given a pass-through entity has no control over whether a subrecipient meets the reporting deadline, this finding is no longer considered to be within the scope of the compliance audit.*

2011-05 Equipment and Real Property Management – Annual Certification of Inventory

*(Pages 63 to 64 of the Prior Year June 30, 2011 Report)
(Pages 64 to 65 of the June 30, 2010 Report)*

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - continued

2011-06 Procurement, Suspension, and Debarment

(Pages 65 to 67 of the Prior Year June 30, 2011 Report)

(Pages 71 to 73 of the June 30, 2010 Report)

(Pages 84 to 85 of the June 30, 2009 Report)

(Pages 84 to 85 of the June 30, 2008 Report)

(Pages 78 to 80 of the June 30, 2007 Report)

Status -- *Partially Accomplished. Corrective action and monitoring is in progress. Please refer to the current year response in the Federal Award Findings and Questioned Costs Finding No. 2012-02.*

2011-07 Special Tests and Provisions

(Pages 68 to 69 of the Prior Year June 30, 2011 Report)

(Pages 76 to 77 of the June 30, 2010 Report)

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*

2011-08 Reporting

(Page 70 of the Prior Year June 30, 2011 Report)

Status -- *Corrective action has been taken to the extent that this finding no longer appears in the Federal Award Findings and Questioned Costs.*