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Acting State Auditor
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Constitutional Mandate

The Office of the Auditor, pursuant to Article VII, Section 10 of the Hawai'i State Constitution, is required to conduct post-audits of the transactions, accounts, program and performance of departments, offices and agencies of the State and its political subdivisions, and to certify to the accuracy of all financial statements issued by the respective accounting officers.

Financial Audit of the Department of Education

Financial Statements, Fiscal Year Ended June 30, 2012

The primary purpose of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Education as of and for the fiscal year ended June 30, 2012, and to comply with the requirements of federal OMB circular A-133, which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KPMG LLP.

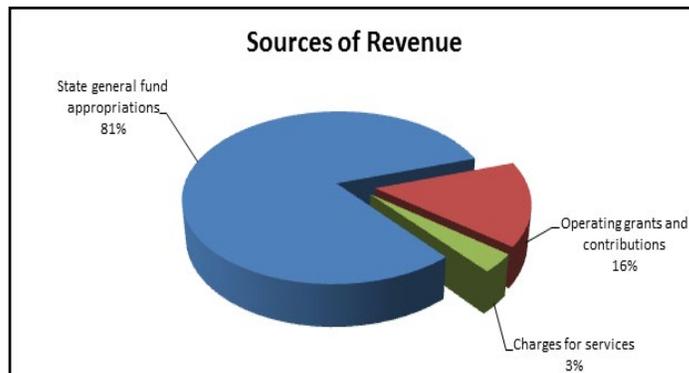
About the Department

The department administers the statewide system of public schools and public libraries. The department is also 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 non-college type of school. Federal grants received to support public school and public library programs are administered by the department on a statewide basis.

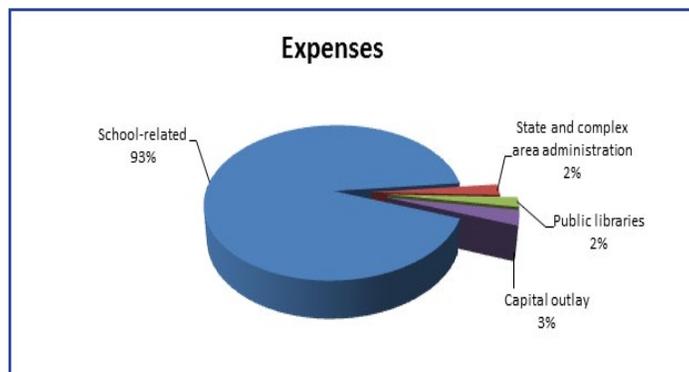
Financial Highlights

For fiscal year ended June 30, 2012, the department reported total revenues of \$1.961 billion and total expenditures of \$2.328 billion, resulting in a deficiency of approximately \$367 million. This deficiency was offset by net transfers-in of approximately \$400 million.

Sources of revenue included \$1.59 billion in state general fund appropriations, \$305.1 million in operating grants and contributions, \$65.8 million in charges for services, and \$0.1 million in investment earnings.



Expenses consisted of \$2.159 billion for school-related costs, \$52.1 million for state and school complex area administration, \$46.3 million for public libraries, and \$70.2 million for capital outlay.





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Auditors' Opinions

Financial Statements: +
Unmodified opinion

Federal Compliance: -
Modified opinion

Issues of Concern

Material Weaknesses
1
Significant Deficiencies
0

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Total assets of the department exceeded total liabilities by \$1.28 billion. Of this amount, approximately \$84.3 million is unrestricted and may be used to meet ongoing expenses and obligations. Total assets of \$1.624 billion was comprised of cash (\$385.4 million), receivables (\$42.6 million), and net capital assets (\$1.196 billion). Liabilities totaled \$343.8 million.

Auditors' Opinions

The department received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The department received a modified opinion on its compliance with requirements that could have a direct or material effect on the department's major federal programs.

Findings

KPMG did not identify any deficiencies in internal controls over financial reporting that were considered to be material weaknesses. The firm did, however, identify several instances of non-compliance, including one deficiency in internal controls over compliance that was considered to be a material weakness:

- Multiple instances in which the department did not comply with federal cash management requirements, which generally prohibit drawing down federal grant funds as cash reimbursements prior to actual payment.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2012_Audit/DOE2012.pdf