

**FINANCIAL AUDIT OF THE
DEPARTMENT OF EDUCATION
STATE OF HAWAII**

Fiscal Year Ended June 30, 2015

**Submitted by
The Auditor
State of Hawaii**



March 24, 2016

Ms. Jan Yamane, Acting State Auditor
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 of the State of Hawaii (DOE) as of and for the fiscal year ended June 30, 2015. Our audit was conducted in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Compliance Supplement for Single Audits of State and Local Governments*.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DOE's basic financial statements as of and for the fiscal year ended June 30, 2015, and to comply with the requirements of OMB Circular A-133, which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for opinions on the fairness of the DOE's basic financial statements and the schedule of expenditures of federal awards as of and for the fiscal year ended June 30, 2015.
2. To consider the DOE's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests of the DOE's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D and 103F, Hawaii Revised Statutes), that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the DOE's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

5. To provide an opinion on the DOE's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major program.

SCOPE OF THE AUDIT

Our audit was conducted 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 DOE for the fiscal year ended June 30, 2015.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I - The basic financial statements and related notes of the DOE as of and for the fiscal year ended June 30, 2015, and our opinions on the basic financial statements and supplementary information.
- Part II - Our report on internal control over financial reporting and on compliance and other matters.
- Part III - Our report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance.
- Part IV - The schedule of findings and questioned costs.
- Part V - Departmental response as provided by the Department of Education, State of Hawaii.
- Part VI - The summary schedule of prior audit findings.

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

Sincerely,

N&K CPAs, Inc.



Lawrence M.T. Chew
Principal

**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

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**DEPARTMENT OF EDUCATION
STATE OF HAWAII**

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

Report on the Financial Statements

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 of the State of Hawaii (DOE), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the DOE's basic financial statements as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain public charter schools which represent 2% of the total assets and 2% of total fund balances as of June 30, 2015, and 3% of total revenues for the fiscal year ended June 30, 2015, of the DOE's governmental funds. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the DOE, is based on the reports 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the

auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the 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 DOE, as of June 30, 2015, and the respective changes in financial position, and, where applicable, the respective budgetary comparison for the General Fund and Federal Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the DOE 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 of Hawaii that is attributable to the transactions of the DOE. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2015, and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 - 16 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DOE's basic financial statements. The schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. Such information 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 basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2016, on our consideration of the DOE'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DOE's internal control over financial reporting and compliance.

N + K CPAs, INC.

Honolulu, Hawaii
March 24, 2016

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

As management of the Department of Education of the State of Hawaii (the Department) we offer readers this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and notes to enhance their understanding of the Department's financial performance.

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

FINANCIAL HIGHLIGHTS

Key government-wide financial highlights for fiscal year ended June 30, 2015 (FY 2015) compared to the prior fiscal year ended June 30, 2014 (FY 2014) are as follows:

- Total FY 2015 revenues were \$2.757 billion, an increase of .3% or \$9 million from \$2.748 billion in FY 2014.
- Total FY 2015 expenses were \$2.550 billion, an increase of 1.7% or \$42 million from \$2.508 billion in FY 2014.
- Of the total FY 2015 expenses of \$2.550 billion, 94% or \$2.393 billion was spent for school-related activities. Of the total FY 2014 expenses of \$2.509 billion, 94% or \$2.348 billion was spent for school-related activities.
- Total assets exceeded liabilities as of June 30, 2015 by \$1.815 billion (net position), compared to \$1.609 billion as of June 30, 2014, an increase of 13%.
- Capital assets, net of accumulated depreciation, comprised 81% and 88% of total net position as of June 30, 2015 and 2014, respectively.

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2015**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Department's basic financial statements which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

- *Government-wide financial statements* - These statements provide a broad overview of the Department's finances, in a manner similar to a private sector business.

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

The statement of activities presents information showing how the Department's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

- *Fund financial statements* - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department has two types of funds: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's near-term financial position. The Department presents four major funds in the fund financial statements: (1) General Fund, (2) Federal Fund, (3) Capital Projects Fund, and (4) Other Fund.

The Department has an annual appropriated budget for its general and federal funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with the budget.

Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2015

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (Continued)

Fiduciary funds are used to account for resources held for the benefit of parties outside the Department. The Department reports on agency funds (or student activity funds as the term is used in the 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. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's programs.

- *Notes to Basic Financial Statements* - The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2015**

**Exhibit A-1
Government-Wide Statements of Net Position
Fiscal years 2015 and 2014
(Amounts in millions)**

	Governmental activities		2015 - 2014	
	2015	2014	Increase (decrease)	Percentage change
Assets:				
Current	\$ 771.1	\$ 607.5	\$ 163.6	27 %
Noncurrent (capital assets, net of depreciation)	<u>1,463.1</u>	<u>1,409.4</u>	<u>53.7</u>	4 %
Total assets	\$ <u>2,234.2</u>	\$ <u>2,016.9</u>	\$ <u>217.3</u>	11 %
Liabilities:				
Current	\$ 308.1	\$ 287.3	\$ 20.8	7 %
Noncurrent	<u>111.2</u>	<u>120.5</u>	<u>(9.3)</u>	(8) %
Total liabilities	<u>419.3</u>	<u>407.8</u>	<u>11.5</u>	3 %
Net position:				
Investment in capital assets	1,463.1	1,409.4	53.7	4 %
Restricted	5.8	13.2	(7.4)	(56) %
Unrestricted	<u>346.0</u>	<u>186.5</u>	<u>159.5</u>	86 %
Total net position	<u>1,814.9</u>	<u>1,609.1</u>	<u>205.8</u>	13 %
Total liabilities and net position	\$ <u>2,234.2</u>	\$ <u>2,016.9</u>	\$ <u>217.3</u>	11 %

Overall Financial Position - The Department's overall net position has increased as of June 30, 2015 compared to the prior fiscal year-end. The Department's largest portion of net position is investment in capital assets (e.g., land, buildings, equipment), which are unavailable for future spending. The Department's unrestricted portion of net position is available for future use to provide program services. Total government-wide net position increased by \$206 million, or 13%, primarily due to an increase in unrestricted net position.

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2015**

**Exhibit A-2
Government-Wide Changes of Net Position
Fiscal years 2015 and 2014
(Amounts in millions)**

	Governmental activities		2015 - 2014	
	2015	2014	Increase (decrease)	Percentage change
Revenues:				
Program revenues:				
Charges for services	\$ 53.8	\$ 53.6	\$ 0.2	-- %
Operating grants and contributions	260.2	288.1	(27.9)	(10) %
Capital grants and contributions	10.5	5.5	5.0	91 %
General revenues:				
State allotted appropriations, net of lapses	1,942.5	1,941.3	1.2	-- %
Non-imposed employee wages and fringe benefits	489.6	459.1	30.5	7 %
Unrestricted investment earnings	<u>0.2</u>	<u>0.1</u>	<u>0.1</u>	100 %
Total	\$ <u>2,756.8</u>	\$ <u>2,747.7</u>	\$ <u>9.1</u>	-- %
Transfers, net	\$ (0.9)	(0.3)	(0.6)	200 %
Expenses:				
School-related	\$ 2,392.8	2,347.6	45.2	2 %
State and complex area administration	62.6	61.7	0.9	1 %
Public libraries	37.1	37.8	(0.7)	(2) %
Capital outlay	<u>57.6</u>	<u>61.4</u>	<u>(3.8)</u>	(6) %
Total	<u>2,550.1</u>	<u>2,508.5</u>	<u>41.6</u>	2 %
Change in net position	\$ <u>205.8</u>	\$ <u>238.9</u>	\$ <u>(33.1)</u>	(14) %

Overall Results of Operations - The Department's results of operations for FY 2015 have resulted in an increase in net position of \$206 million. This is somewhat lower than the increase in net position of \$239 million for the prior FY 2014. Total FY 2015 expenses were \$2.550 billion, an increase of 2% or \$42 million from \$2.509 billion in FY 2014.

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2015**

GOVERNMENTAL FUND FINANCIAL ANALYSIS

Within the governmental fund financial statements, the overall net change in fund balance for FY 2015 was \$147.6 million, and the total overall fund balance for the governmental funds as of June 30, 2015 was \$497.8 million.

General Fund Budget Results - The Department was appropriated general funds of \$1.506 billion in FY 2015. Increases of "Final" compared to "Original" budgeted amounts as reported on the Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund are primarily due to legislative appropriations due to collective bargaining compensation changes.

For the General Fund, the Department is allowed to carry over up to 5% of any appropriation at the end of the fiscal year. 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. For the fiscal year ended June 30, 2015, general funds carried over totaled \$44.9 million, representing 3% of general fund appropriations.

Federal Fund Budget Results - The Department expended \$13.2 million less federal funds than it received during FY 2015; this merely reflects the timing of expenditures versus federal cash that may have been received during the fiscal year.

AGENCY FUNDS

Agency funds, or "student activity 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 funds due to the students and others was \$25.3 million in FY 2015 representing a 2% decrease from the prior fiscal year balance of \$25.8 million.

CAPITAL ASSETS

The Department's capital improvement program strives to provide and maintain 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.

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2015**

The Department's capital assets as of June 30, 2015 amounted to \$1.463 billion (net of accumulated depreciation of \$1.554 billion), an increase of \$54 million, compared to capital assets as of June 30, 2014 which amounted to \$1.409 billion (net of accumulated depreciation of \$1.441 billion). Depreciation expense for FY 2015 amounted to \$121.3 million.

The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, and related expenses. These commitments amounted to approximately \$411.9 million as of June 30, 2015.

Additional information on the Department's capital assets and construction contract commitments can be found in Note E and Note L to the basic financial statements.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Fiscal Services, Department of Education, P.O. Box 2360, Honolulu, Hawaii 96804. General information about the Department can be found at the Department's website, www.hawaiipublicschools.org.

**Department of Education
State of Hawaii
STATEMENT OF NET POSITION
June 30, 2015**

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 727,524,930
Receivables	
Due from federal government	30,722,782
Due from other agencies	3,427,117
Accounts receivable	<u>9,422,350</u>
Total current assets	771,097,179
Capital assets, net of accumulated depreciation	<u>1,463,145,006</u>
Total assets	\$ <u><u>2,234,242,185</u></u>
LIABILITIES AND NET POSITION	
Current liabilities	
Vouchers and contracts payable	\$ 133,190,321
Accrued wages and employee benefits	135,064,854
Accrued compensated absences	22,101,834
Workers' compensation claims reserve	12,728,152
Due to State of Hawaii general fund	<u>5,000,000</u>
Total current liabilities	308,085,161
Accrued compensated absences, less current portion	44,359,538
Workers' compensation claims reserve, less current portion	<u>66,822,799</u>
Total liabilities	<u>419,267,498</u>
Net position	
Net investment in capital assets	1,463,145,006
Restricted	5,794,539
Unrestricted	<u>346,035,142</u>
Total net position	<u>1,814,974,687</u>
Total liabilities and net position	\$ <u><u>2,234,242,185</u></u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2015**

		Program revenues			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Net revenue (expenses) and change in net assets Governmental activities
Governmental activities:					
School-related	\$ 2,392,768,177	\$ 51,253,627	\$ 256,445,136	\$ --	\$ (2,085,069,414)
State and complex area administration	62,648,636	530,867	2,596,226	--	(59,521,543)
Public libraries	37,065,087	2,002,127	1,200,007	--	(33,862,953)
Capital outlay	<u>57,639,690</u>	<u>--</u>	<u>--</u>	<u>10,512,090</u>	<u>(47,127,600)</u>
Total governmental activities	<u>\$ 2,550,121,590</u>	<u>\$ 53,786,621</u>	<u>\$ 260,241,369</u>	<u>\$ 10,512,090</u>	(2,225,581,510)
General revenues:					
State allotted appropriations, net of lapses					1,942,502,146
Nonimposed employee wages and fringe benefits					489,557,346
Unrestricted investment earnings					<u>186,678</u>
Total general revenues					<u>2,432,246,170</u>
Other financing sources (uses):					
Transfers in					1,484,530
Transfers out					<u>(2,337,899)</u>
Net transfers					<u>(853,369)</u>
Change in net position					205,811,291
Net position at June 30, 2014					<u>1,609,163,396</u>
Net position at June 30, 2015					<u>\$ 1,814,974,687</u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

	<u>General</u>	<u>Federal</u>	<u>Capital Projects</u>	<u>Other</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 147,206,786	\$ 114,917,509	\$ 387,897,035	\$ 77,503,600	\$ 727,524,930
Receivables					
Due from federal government	--	30,722,782	--	--	30,722,782
Due from other agencies	--	--	--	3,427,117	3,427,117
Accounts receivable	--	--	--	<u>9,422,350</u>	<u>9,422,350</u>
Total assets	<u>\$ 147,206,786</u>	<u>\$ 145,640,291</u>	<u>\$ 387,897,035</u>	<u>\$ 90,353,067</u>	<u>\$ 771,097,179</u>
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES					
Vouchers and contracts payable	\$ 57,592,016	\$ 20,871,160	\$ 49,787,218	\$ 4,939,927	\$ 133,190,321
Accrued wages and employee benefits payable	126,244,553	4,961,150	344,731	3,514,420	135,064,854
Due to State general fund	<u>5,000,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,000,000</u>
Total liabilities	<u>188,836,569</u>	<u>25,832,310</u>	<u>50,131,949</u>	<u>8,454,347</u>	<u>273,255,175</u>
FUND BALANCES (DEFICITS)					
Restricted	--	5,794,539	--	--	5,794,539
Committed	--	--	--	81,898,720	81,898,720
Assigned	61,214,350	114,013,442	337,765,086	--	512,992,878
Unassigned	<u>(102,844,133)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(102,844,133)</u>
Total fund balances (deficits)	<u>(41,629,783)</u>	<u>119,807,981</u>	<u>337,765,086</u>	<u>81,898,720</u>	<u>497,842,004</u>
Total liabilities and fund balances (deficits)	<u>\$ 147,206,786</u>	<u>\$ 145,640,291</u>	<u>\$ 387,897,035</u>	<u>\$ 90,353,067</u>	<u>\$ 771,097,179</u>

See accompanying notes to the basic financial statements.

Department of Education
State of Hawaii
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2015

Total fund balances - governmental funds	\$	497,842,004
 Amounts reported for governmental activities in the statement of net position are different because:		
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
 Capital Assets		
Governmental capital assets	\$ 3,017,552,645	
Less accumulated depreciation	<u>(1,554,407,639)</u>	1,463,145,006
 Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.		
		(66,461,372)
 Workers' compensation claims reserve is not due in the current period and, therefore, is not reported in the funds.		
		<u>(79,550,951)</u>
 Net position of governmental activities	 \$	 <u>1,814,974,687</u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2015**

	General	Federal	Capital Projects	Other	Total
REVENUES					
State allotments, net	\$ 1,575,152,480	\$ --	\$ 360,918,733	\$ 6,430,933	\$ 1,942,502,146
Nonimposed employee wages and fringe benefits	489,557,346	--	--	--	489,557,346
Intergovernmental revenues	--	251,714,510	--	1,045,923	252,760,433
Other revenues	--	--	--	71,966,325	71,966,325
	<u>2,064,709,826</u>	<u>251,714,510</u>	<u>360,918,733</u>	<u>79,443,181</u>	<u>2,756,786,250</u>
EXPENDITURES					
School-related	1,983,170,454	242,028,479	--	75,548,751	2,300,747,684
State and complex area administration	56,034,103	4,093,667	--	594,441	60,722,211
Public libraries	39,074,106	1,082,247	--	3,308,095	43,464,448
Capital outlay	665,810	10,512,090	189,249,662	2,658,721	203,086,283
	<u>2,078,944,473</u>	<u>257,716,483</u>	<u>189,249,662</u>	<u>82,110,008</u>	<u>2,608,020,626</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(14,234,647)</u>	<u>(6,001,973)</u>	<u>171,669,071</u>	<u>(2,666,827)</u>	<u>148,765,624</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	--	--	--	1,183,270	1,183,270
Transfers out	--	(1,183,270)	(1,154,629)	--	(2,337,899)
Net transfers	<u>--</u>	<u>(1,183,270)</u>	<u>(1,154,629)</u>	<u>1,183,270</u>	<u>(1,154,629)</u>
NET CHANGE IN FUND BALANCES (DEFICITS)	(14,234,647)	(7,185,243)	170,514,442	(1,483,557)	147,610,995
FUND BALANCES (DEFICITS) AT					
JULY 1, 2014	<u>(27,395,136)</u>	<u>126,993,224</u>	<u>167,250,644</u>	<u>83,382,277</u>	<u>350,231,009</u>
FUND BALANCES (DEFICITS) AT					
JUNE 30, 2015	<u>\$ (41,629,783)</u>	<u>\$ 119,807,981</u>	<u>\$ 337,765,086</u>	<u>\$ 81,898,720</u>	<u>\$ 497,842,004</u>

See accompanying notes to the 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, 2015**

Net change in fund balances - total government funds		\$ 147,610,995
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are depreciated over their estimated useful lives as depreciation expense.</p>		
Expenditures for capital assets	\$ 171,552,559	
Loss on disposal of capital assets	3,509,587	
Less current fiscal year depreciation	<u>(121,312,859)</u>	53,749,287
Change in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		6,746,597
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 as expenditures in governmental funds		<u>(2,295,588)</u>
Change in net position of governmental activities		\$ <u>205,811,291</u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State allotments	\$ <u>1,505,515,157</u>	\$ <u>1,575,812,629</u>	\$ <u>1,574,892,901</u>	\$ <u>(919,728)</u>
EXPENDITURES				
School-related	1,432,126,559	1,499,470,436	1,454,206,854	45,263,582
State and complex area administration	43,343,959	45,135,942	44,602,641	533,301
Public libraries	<u>30,044,639</u>	<u>31,206,251</u>	<u>31,206,052</u>	<u>199</u>
	<u>1,505,515,157</u>	<u>1,575,812,629</u>	<u>1,530,015,547</u>	<u>45,797,082</u>
Excess of revenues over (under) expenditures	\$ <u> --</u>	\$ <u> --</u>	\$ <u> 44,877,354</u>	\$ <u> 44,877,354</u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - FEDERAL FUND
Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal grants	\$ 432,628,240	\$ 468,335,641	\$ 243,646,515	\$ (224,689,126)
	<u>432,628,240</u>	<u>468,335,641</u>	<u>243,646,515</u>	<u>(224,689,126)</u>
EXPENDITURES				
School-related	427,797,399	462,806,402	227,705,921	235,100,481
State and complex area administration	3,465,597	4,779,239	2,606,732	2,172,507
Public libraries	<u>1,365,244</u>	<u>750,000</u>	<u>135,610</u>	<u>614,390</u>
	<u>432,628,240</u>	<u>468,335,641</u>	<u>230,448,263</u>	<u>237,887,378</u>
Excess of revenues over (under) expenditures	\$ <u> --</u>	\$ <u> --</u>	\$ <u>13,198,252</u>	\$ <u>13,198,252</u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
June 30, 2015**

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 23,231,103
Investments	<u>2,028,319</u>
Total assets	<u>25,259,422</u>
LIABILITIES	
Due to student groups and others	<u>25,259,422</u>
Total liabilities	<u>25,259,422</u>
NET POSITION	\$ <u><u> --</u></u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015**

NOTE A - FINANCIAL REPORTING ENTITY

- (1) **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 the Department of Education (DOE), the Hawaii State Public Library System (HSPLS), and the Public Charter Schools (PCS) where the DOE prepares entries, based on information provided by the HSPLS and PCS, to combine financial data for the three units, in aggregate known as the Department. The fiscal and oversight authority for the DOE, HSPLS and PCS are managed independently. The DOE has determined that the PCS balances are significant, but not material, and relies on financial information which have been audited by third-parties and coordinated by the 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, 2015, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America (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.

- (2) **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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (1) ***Government-Wide and Fund Financial Statements*** - The government-wide financial statements report all assets, liabilities, and activities of the Department as a whole.

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

Separate financial statements are provided for governmental funds and fiduciary funds. The fiduciary funds, however, are excluded from the government-wide financial statements because the Department cannot use those assets to finance its operations. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are summarized into a single column.

- (2) ***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.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 expenditures when utilized or paid. The amount of accumulated vacation and reserve for workers' compensation claims at June 30, 2015 has been reported only in the government-wide financial statements.

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

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.

(3) ***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.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 Funds - The other funds 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.

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.

The Department classifies fund balances based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

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.

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, generally it is the Department's policy that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

Fiduciary Funds

Agency Fund - The 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.

- (4) **Cash and Cash Equivalents** - Cash and cash equivalents 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.

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.

- (5) **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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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.

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
Motor vehicles	\$ 5,000	5 years
Public library materials	All	5 years

- (6) **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 termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net position.
- (7) **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.

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (8) ***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.
- (9) ***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.
- (10) ***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.

NOTE C - 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, 2015, general funds carried over amounted to approximately \$44,900,000, representing approximately 3% of appropriations.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)

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, 2015:

	<u>General</u>	<u>Federal</u>
Excess of revenues over (under) expenditures - actual on a budgetary basis	\$ 44,877,354	\$ 13,198,252
Reserved for encumbrances at fiscal year-end	69,738,886	17,854,514
Expenditures for liquidation of prior fiscal year encumbrances	(117,557,639)	(35,108,068)
Net accrued revenues and expenditures	<u>(11,293,248)</u>	<u>(1,946,671)</u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	\$ <u>(14,234,647)</u>	\$ <u>(6,001,973)</u>

NOTE D - CASH AND CASH EQUIVALENTS

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 the bank balance, insurance, and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

Cash and cash equivalents at June 30, 2015 consisted of amounts held in State Treasury of approximately \$691,758,000.

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE D - CASH AND CASH EQUIVALENTS (Continued)

- (1) **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.
- (2) **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.
- (3) **Custodial Credit 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.
- (4) **Concentration of Credit Risk** - The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.
- (5) **Cash in Bank** - The DOE maintains cash in banks which is held separately from cash in the State Treasury. As of June 30, 2015, the carrying amount of total bank deposits was approximately \$6,714,000 and the corresponding bank balances were approximately \$22,105,000. Of this amount, the PCS also held cash outside of the State Treasury totaling approximately \$29,053,000 at June 30, 2015.

All deposits are collateralized in accordance with State statutes. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) and collateralized with securities held by the Department's agent. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE E - CAPITAL ASSETS

For the fiscal year ended June 30, 2015, capital assets activity for the DOE was as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Government activities:				
Capital asset, not being depreciated:				
Land	\$ 88,238,609	\$ --	\$ --	\$ 88,238,609
Construction in progress	<u>252,967,283</u>	<u>141,937,006</u>	<u>(189,254,509)</u>	<u>205,649,780</u>
Total capital assets not being depreciated	<u>341,205,892</u>	<u>141,937,006</u>	<u>(189,254,509)</u>	<u>293,888,389</u>
Capital assets, being depreciated:				
Land improvements	225,423,462	11,560,289	--	236,983,751
Buildings and improvements	2,049,204,693	117,254,638	--	2,166,459,331
Furniture and equipment	154,156,730	89,631,157	(4,559,593)	239,228,294
Vehicles	10,369,973	1,003,038	(527,031)	10,845,980
Public library materials	<u>69,886,958</u>	<u>4,075,589</u>	<u>(3,815,647)</u>	<u>70,146,900</u>
Total capital assets being depreciated	<u>2,509,041,816</u>	<u>223,524,711</u>	<u>(8,902,271)</u>	<u>2,723,664,256</u>
Less accumulated depreciation for:				
Land improvements	(123,318,681)	(10,965,922)	--	(134,284,603)
Buildings and improvements	(1,172,583,569)	(57,659,239)	--	(1,230,242,808)
Furniture and equipment	(77,746,241)	(46,288,293)	3,443,078	(120,591,456)
Vehicles	(9,447,015)	(717,603)	498,484	(9,666,134)
Public library materials	<u>(57,756,483)</u>	<u>(5,681,802)</u>	<u>3,815,647</u>	<u>(59,622,638)</u>
Total accumulated depreciation	<u>(1,440,851,989)</u>	<u>(121,312,859)</u>	<u>7,757,209</u>	<u>(1,554,407,639)</u>
Government activities, net	\$ <u>1,409,395,719</u>	\$ <u>244,148,858</u>	\$ <u>(190,399,571)</u>	\$ <u>1,463,145,006</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>
School-related	\$ 110,147,255
State and complex area administration	2,094,697
Public libraries	<u>9,070,907</u>
Total additions to accumulated depreciation	\$ <u>121,312,859</u>

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE F - LONG-TERM LIABILITIES

The change in long-term liabilities during the fiscal year ended June 30, 2015, was as follows:

	<u>Accrued compensated absences</u>	<u>Workers' compensation claims</u>
Balance at July 1, 2014	\$ 73,207,969	\$ 77,255,363
Additions	26,380,525	13,568,552
Reductions	<u>(33,127,122)</u>	<u>(11,272,964)</u>
Balance at June 30, 2015	66,461,372	79,550,951
Less current portion	<u>(22,101,834)</u>	<u>(12,728,152)</u>
	<u>\$ 44,359,538</u>	<u>\$ 66,822,799</u>

The compensated absences and workers' compensation liabilities have been paid primarily by the general fund in the past. The carrying amount of liabilities for unpaid workers' compensation claims of approximately \$81.7 million is reported at present value using a discount rate of 2.0%.

NOTE G - 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 reimbursed under the NSLP and SFSP of the previous school year. FNS estimates the cost to purchase the USDA Foods. The estimated prices can be found by referring to: <http://www.fns.usda.gov/fdd/pcims/Nov15CommodityFiles.htm>. The amount charged to the entitlement is based upon the net dollar values of the purchased USDA Foods. Bonus commodities are USDA Foods that are additional to Hawaii's entitlement. A portion of the entitlement is allocated for the purchase of fresh produce.

The Department received approximately \$5,790,062 of commodities for the fiscal year ended June 30, 2015. No bonus commodities were received for the fiscal year ended June 30, 2015.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE H - NONIMPOSED EMPLOYEE WAGES AND FRINGE BENEFITS

Payroll fringe benefit costs and certain payroll costs related to backpay of the Department's employees that are funded by state appropriations are assumed by the State and are not charged to the Department's operating funds. These costs, totaling approximately \$489,557,000 for the fiscal year ended June 30, 2015, have been reported as revenues and expenditures in the general fund of the Department.

NOTE I - LEASE COMMITMENTS

The Department leases equipment from third-party lessors under various operating leases expiring through 2024. Future minimum lease rentals under noncancelable operating leases with terms of one year or more at June 30, 2015 were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 4,020,000
2017	3,374,000
2018	2,516,000
2019	1,441,000
2020	581,000
2021 - 2025	<u>135,000</u>
	\$ <u>12,067,000</u>

Total rent expense related to the above leases for the year ended June 30, 2015 amounted to approximately \$4,099,000.

NOTE J - RETIREMENT BENEFITS

(1) ***Employees' Retirement System (ERS)***

All eligible employees of the Department are provided with pensions through a cost sharing multiple-employer defined benefit pension plan administered by the Employees' Retirement System of the State of Hawaii (ERS). Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: <http://www.ers.ehawaii.gov/>.

Benefits Provided

The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for

**Department of Education
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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE J - RETIREMENT BENEFITS (Continued)

new hybrid and contributory class members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% 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, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

(a) Retirement Benefits:

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

(b) Disability Benefits:

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

(c) Death Benefits:

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

**Department of Education
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NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE J - RETIREMENT BENEFITS (Continued)

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse / reciprocal beneficiary (until remarriage / reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse / reciprocal beneficiary receives 100% joint and survivor lifetime pension.

Contributory Class for Employees Hired Prior to July 1, 2012

(a) Retirement Benefits:

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 5 years of credited service are eligible to retire at age 55.

(b) Disability Benefits:

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

(c) Death Benefits:

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

Ordinary death benefits are available to employees who were active at time of death with at least 1 year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE J - RETIREMENT BENEFITS (Continued)

percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Employees Hired After June 30, 2012

(a) Retirement Benefits:

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

Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 10 years of credited service are eligible to retire at age 60.

(b) Disability and Death Benefits:

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Class for Employees Hired Prior to July 1, 2012

(a) Retirement Benefits:

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE J - RETIREMENT BENEFITS (Continued)

(b) Disability Benefits:

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

(c) Death Benefits:

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

Ordinary death benefits are available to employees who were active at time of death with at least 5 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Employees Hired After June 30, 2012

(a) Retirement Benefits:

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

(b) Disability and Death Benefits:

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015**

NOTE J - RETIREMENT BENEFITS (Continued)

benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 120%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary or if less than 10 years of service, return of member's contributions and accrued interest.

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The Department's contributions were approximately \$213,498,000 for the fiscal year ended June 30, 2015.

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

State Policy

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. It is the State's policy on the accounting and reporting for pension benefits to allocate a portion of the net pension liability, pension expense, and related deferred inflows and outflows of resources to only component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR). The State's CAFR includes the note disclosures and required supplementary information on the State's pension plan.

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

In addition to providing pension benefits, the State also provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE J - RETIREMENT BENEFITS (Continued)

single delivery system of health benefits for State and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

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

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

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. 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 share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2015, 2014, and 2013 were approximately \$130,946,000, \$128,183,000, and \$121,324,000, respectively.

(3) ***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.

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE J - RETIREMENT BENEFITS (Continued)

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 accompanying basic financial statements.

NOTE K - RISK MANAGEMENT

The State 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 generally retains the first \$1,000,000 per occurrence of property losses, the first \$4,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence of property losses is \$200,000,000 except for terrorism, which is \$50,000,000 per occurrence. The annual aggregate limit for general liability losses is \$15,000,000 per occurrence and for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate.

The State is generally self-insured for workers' compensation and automobile claims. The Department administers its workers' compensation losses. A liability for workers' compensation is established if information indicates that a loss has been incurred as of June 30, 2015, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported and loss adjustment expenses. The amount of the estimated loss is recorded in the accompanying statement of net position, as those losses will be liquidated with future expendable resources.

NOTE L - COMMITMENTS AND CONTINGENCIES

- (1) **Encumbrances** - The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, expenses, supplies, etc. These commitments as of June 30, 2015 were as follows:

Fund	Amount
General Fund	\$ 80,351,537
Federal Fund	29,851,155
Capital Projects Fund	411,983,518
Other Funds	<u>11,012,059</u>
	<u>\$ 533,198,269</u>

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE L - COMMITMENTS AND CONTINGENCIES (Continued)

- (2) ***Litigation*** - The Department has been named as defendant in a number of lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the Department, such loss has been accrued in the basic financial statements. Of the remaining claims, a number of claims may possibly result in adverse judgments against the Department. However, such claim amounts cannot be reasonably estimated at this time. Although the Department and its counsel are unable to express opinions as to the outcome of on-going 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 funded by the legislative appropriation of the State General Fund.

SUPPLEMENTARY INFORMATION

**Department of Education
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor and Program Title	Federal 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		\$ 13,363,641	\$ 622,853
National School Lunch Program	10.555			
Cash assistance			39,597,684	2,198,940
Cash assistance (commodities)			5,790,062	--
Subtotal - National School Lunch Program			<u>45,387,746</u>	<u>2,198,940</u>
Summer Food Service Program for Children	10.559			
Cash assistance			519,649	517,649
State administrative expense			35,288	--
Subtotal - Summer Food Service Program for Children			<u>554,937</u>	<u>517,649</u>
Total - Child Nutrition Cluster			<u>59,306,324</u>	<u>3,339,442</u>
Child and Adult Care Food Program	10.558		7,485,183	7,419,665
State Administrative Expense for Child Nutrition	10.560		1,645,136	--
Team Nutrition Grant	10.574		58,465	--
Child Nutrition Discretionary Grants Limited Availability	10.579		65,290	63,479
Fresh Fruit and Vegetable Program	10.582		1,447,623	176,565
Total - U.S. Department of Agriculture			<u>70,008,021</u>	<u>10,999,151</u>
U.S. Department of Commerce				
Measurement and Engineering Research and Standards	11.609		8,000	--
Total - U.S. Department of Commerce			<u>8,000</u>	<u>--</u>
U.S. Department of Defense				
Thinking Through Science	12.030		13,041	--
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556			
AVID Radford Complex			380,292	--
Expanding Virtual Learning Opportunities			471,336	--
Implement Blended Learning			10,930	--
Math Learners			825,228	--
Total - DoDEA Grant Program			1,687,786	--
Invitational Grants for Military-Connected Schools	12.557		87,131	--
DoD Impact Aid	12.558		2,833,548	--
Community Investment	12.600		10,512,090	--
Passed-through U.S. Pacific Command				
Joint Venture Education Forum	12.N00038		62,348	--
Total - U.S. Department of Defense			<u>\$ 15,195,944</u>	<u>\$ --</u>

¹ Other identifying number used if no CFDA number available.

See accompanying note to schedule of expenditures of federal awards.

**Department of Education
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number ¹	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Education				
Adult Education - Basic Grants to States	84.002		\$ 1,858,844	\$ --
Title I - Grants to Local Educational Agencies	84.010		45,251,145	--
Migrant Education - State Grant Program	84.011		797,327	--
Title I - Program for Neglected and Delinquent Children	84.013		70,676	--
Special Education Cluster				
Grants to States	84.027		41,865,178	--
Preschool Grants	84.173		998,791	--
Total - Special Education Cluster			<u>42,863,969</u>	<u>--</u>
Impact Aid	84.041		50,385,439	--
Migrant Education Coordination Program	84.144		112,577	--
Safe and Drug-Free Schools and Communities_National Programs	84.184		1,210	--
Education and Homeless Children and Youth	84.196		241,905	--
Fund for the Improvement of Education	84.215		277,282	--
Twenty-First Century Community Learning Centers	84.287		4,133,462	--
Advanced Placement Program	84.330		222,070	--
Native Hawaiian Education	84.362		27,325	--
English Language Acquisition Grants	84.365		3,177,391	--
Mathematics and Science Partnerships	84.366		543,598	--
Improving Teacher Quality State Grants	84.367		9,936,212	--
Grants for State Assessments and Related Activities	84.369		1,591,702	--
Statewide Longitudinal Data Systems	84.372		1,252,272	--
School Improvement Grants Cluster				
School Improvement Grants	84.377		1,689,437	--
School Improvements Grants - ARRA	84.388		409,647	--
Total - School Improvement Grants Cluster			<u>2,099,084</u>	<u>--</u>
Common Core of Data Survey Project	84.ED-08-CO-0029		7,515	--
NAEP State Coordinator	84.ED-08-CO-0029		209,200	--
Passed-through Office of the State of Director for Vocational Education				
Career and Technical Education - Basic Grants to States	84.048	V048A12-V048A14	2,537,614	--
Passed-through State of Department of Human Services Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	H126A70015	77,809	--

¹ Other identifying number used if no CFDA number available.

See accompanying note to schedule of expenditures of federal awards.

**Department of Education
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number ¹	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
U.S. Department of Education (Continued)				
Passed-through Alu Like, Inc. Native Hawaiian Career and Technical Education	84.259	VE1011-01-0 2.3	\$ 315,535	\$ --
Passed-through University of Hawaii Gaining Early Awareness and Readiness	84.334	P334S110026	337,032	--
Gaining Early Awareness and Readiness	84.334A	P334A110247	193,369	--
Native Hawaiian Education	84.362A	S362A11-S362A12	835,751	--
College Access Challenge Grant Program	84.378A	P378A120027	<u>91,490</u>	<u>--</u>
Total - Passed-through University of Hawaii			<u>1,457,642</u>	<u>--</u>
Passed-through Office of the Governor State Fiscal Stabilization Fund, Race-to-the-Top - ARRA	84.395	S395A100051	<u>6,147,798</u>	<u>--</u>
Total - U.S. Department of Education			<u>175,596,603</u>	<u>--</u>
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		55,000	--
Passed-through State Department of Human Services Child Care and Development Block Grant	93.575	DHS-11-CCPO	226,325	--
Temporary Assistance for Needy Families	93.558	DHS-10-ETPO-154	<u>2,386,005</u>	<u>--</u>
Total - Passed-through State Department of Human Services			<u>2,612,330</u>	<u>--</u>
Total - U.S. Department of Health and Human Services			<u>2,667,330</u>	<u>--</u>
U.S. Department of Homeland Security				
Passed-through State Department of Homeland Security Homeland Security Grant Program	97.067	EMW-2014-SS-00003-S01	<u>57,067</u>	<u>--</u>
Total - U.S. Department of Homeland Security			<u>57,067</u>	<u>--</u>
U.S. Department of Interior				
Economic, Social and Political Development of the Territories	15.875		<u>1,122,900</u>	<u>--</u>
Total - U.S. Department of Interior			<u>1,122,900</u>	<u>--</u>
U.S. Department of Justice				
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540		<u>1,728</u>	<u>--</u>
Total - U.S. Department of Justice			<u>1,728</u>	<u>--</u>
Institute of Museum and Library Services				
Grants to States	45.310		<u>1,069,897</u>	<u>--</u>
Total - Institute of Museum and Library Services			<u>1,069,897</u>	<u>--</u>
Grand Total			<u>\$ 265,727,490</u>	<u>\$ 10,999,151</u>

¹ Other identifying number used if no CFDA number available.

See accompanying note to schedule of expenditures of federal awards.

**Department of Education
State of Hawaii
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015**

Basis of Presentation

The accompanying schedule of expenditure of federal awards (SEFA) includes federal grant activity of the Department of Education (DOE), the Hawaii State Public Library System (HSPLS), and Public Charter Schools (PCS) where the DOE prepares the SEFA, based on information provided by the HSPLS and PCS, to combine federal financial data for the three departments, in aggregate known as the Department.

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

**AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**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**

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii
Board of Education
State of Hawaii, Department of Education

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 (DOE), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the DOE's basic financial statements, and have issued our report thereon dated March 24, 2016. Our report includes a reference to other auditors who audited the financial statements of certain public charter schools, as described in our report on the DOE's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the DOE's financial

statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DOE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

DOE's Response to Findings

The DOE's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The DOE's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

N + K CPAs, INC.

Honolulu, Hawaii

March 24, 2016

PART III

**AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE**

**REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

To the Auditor
Office of the Auditor
Board of Education
State of Hawaii, Department of Education

Report on Compliance for Each Major Federal Program

We have audited the Department of Education of the State of Hawaii's (DOE) compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the DOE's major federal programs for the fiscal year ended June 30, 2015. The DOE's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the DOE's major federal programs based on our audit of the types of compliance requirements referred to above. 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 DOE'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the DOE's compliance.

Opinion on Each Major Federal Programs

In our opinion, the DOE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the fiscal year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 item 2015-003. Our opinion on each major federal program is not modified with respect to these matters.

The DOE's response to the noncompliance finding identified in our audit is described in Part V, Corrective Action Plan of this report. The DOE's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the DOE is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the DOE's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 DOE's internal control over compliance.

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 a 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. 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-003 that we consider to be a significant deficiency.

The DOE's response to the internal control over compliance findings identified in our audit is described in Part V, Corrective Action Plan of this report. The DOE's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

N + K CPAs, INC.

Honolulu, Hawaii
March 24, 2016

PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Education
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified
 Internal control over financial reporting:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes none reported
 Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major program:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified? yes none reported
 Type of auditor's report issued on compliance for major programs: Unmodified
 Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children
12.600	Community Investment
84.010	Title I - Grants to Local Educational Agencies
84.041	Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
 Auditee qualified as a low-risk auditee? yes no

Department of Education
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

Ref. No. Internal Control Findings

2015-001 Improve Financial Statement Preparation for Agency Fund

The DOE uses a web-based accounting system referred to as the SAF system to account for its Student Activity Fund, an agency fund. The system allows schools to create bank accounts in the SAF system to track each checking and investment account separately. The school may set up the system to view total investment balance beside its main checking account balance.

The DOE used the Statement of Financial Position report generated from the SAF system to prepare the Statement of Fiduciary Net Position for financial statement reporting purpose. The report displays all bank accounts for each school. Both cash and investment balances for each bank account for all schools are displayed under a column entitled "Cash and Cash Equivalents." Investments for schools that set up their system to view investments beside their main checking account are displayed individually under this column and again in total in another column entitled "Investments" besides the school's main checking account.

The SAF system was implemented during the fiscal year ended June 30, 2015 and it was the first time the DOE prepared a financial statement using a report generated from the system. The DOE did not properly identify investment balances that were displayed twice in the report and inappropriately used the column totals for both "Cash and Cash Equivalents" and "Investments" without adjustment in preparing the financial statement. This error in financial reporting was detected in the audit and the DOE agreed to the proposed adjustments to correct cash that was overstated by approximately \$1.6 million, investment that was understated by approximately \$0.6 million, and net due to student groups and others that was overstated by approximately \$1 million. The audited Statement of Fiduciary Net Position reflects these corrections.

Recommendation

The DOE should improve its financial statement preparation process for the agency fund to ensure accuracy.

2015-002 Improve Procedures Over Tracking and Accounting for Completed Construction

The DOE's Office of School Facilities and Support Services (OSFSS) did not provide the Office of Fiscal Services, Accounting Services Branch (Accounting) with complete and timely information regarding the status of construction projects. The purpose of this information is for proper reporting of capital asset information, both construction projects in progress (CIP) and completed fixed assets, in the DOE's

**Department of Education
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015**

2015-002 Improve Procedures Over Tracking and Accounting for Completed Construction (Continued)

financial statements. Accounting relies on information provided by the OSFSS to prepare the CIP and fixed assets schedules for the DOE's financial reporting.

During our audit of CIP we noted several projects that were actually completed but were not transferred to fixed assets. One such project was job number R61001-11: VAR SCH CNVRGD INFRSTRCTR S/W which had assets that were actually completed and placed into service in prior years; however the project was not properly transferred from CIP to fixed assets in the appropriate years. This error in financial reporting was detected during the audit. Accounting had to adjust the fixed assets and accumulated depreciation by approximately \$74.0 and \$18.8 million, respectively. The DOE's Government-Wide financial statements reflect this correction.

Recommendation

The Office of School Facilities and Support Services should be continuously tracking the status of all construction projects throughout the year for proper recordkeeping purposes, and provide accurate and timely information to the Accounting for financial reporting purposes.

Department of Education
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2015

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

Ref. No.	Compliance and Internal Control Finding	Questioned Costs
2015-003	<p>Improve Record Maintenance for Documentation of Students Excluded From the Four-Year Adjusted Cohort Graduation Rate</p> <p>Federal agency: U.S. Department of Education CFDA No.: 84.010 Program: Title I – Grants to Local Educational Agencies Federal award no.: S010A140011-14B</p> <p>Criteria: 34 CFR 200.19(b) states in part, "... A state must calculate a "four-year adjusted cohort graduation rate," defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. ...To remove a student from the cohort, a school or LEA must confirm in writing that the student was transferred out, emigrated to another country, or is deceased. To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma...."</p> <p>Condition: For 1 out of 25 transferred out students selected for testing, the DOE did not provide official written documentation to support the transferred out student who was removed in calculating the four-year adjusted cohort graduation rates for the school year ending in 2014. In another instance, the DOE did not update the database used in the calculation to reflect a change in the student's transfer status.</p> <p>Cause: The schools did not always retain the appropriate official written documentation to support students classified as transferred out for the purpose of calculating the four-year adjusted cohort graduation rates. In addition, the schools did not always update the student database to reflect the change in transfer status.</p> <p>Effect: The DOE was unable to support all students that were removed from a cohort in its calculation of the four-year adjusted cohort graduation rates. In addition, the count of students removed in calculating the graduation rates was incorrect.</p> <p>Recommendation</p> <p>The DOE should improve its maintenance of the official written records supporting the removal of students from a cohort used in calculating the four-year adjusted cohort graduation rates to ensure the records are readily available to support reported graduation rates. The DOE should also improve the maintenance of the database used in calculating the graduation rates to ensure accuracy.</p>	\$ _____

PART V

DEPARTMENTAL RESPONSE

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

DAVID Y. IGE
GOVERNOR



KATHRYN S. MATAYOSHI
SUPERINTENDENT

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

OFFICE OF THE SUPERINTENDENT

March 24, 2016

N&K CPAs, Inc.
American Savings Bank Tower, Suite 1700
1001 Bishop St
Honolulu, HI 96813

Ladies and Gentlemen:

The Single Audit of the State of Hawaii Department of Education (HIDOE) for the fiscal year ended June 30, 2015 was completed before the March 31, 2016 Federal deadline. We are pleased that the HIDOE received an unmodified 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, 2015 and the **Summary Schedule of Prior Audit Findings** for the year ended June 30, 2014.

Very truly yours,

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

Kathryn S. Matayoshi
Superintendent

KSM:dy
Attachments

c: Internal Audit Office

AN AFFIRMATIVE ACTION AND EQUAL OPPORTUNITY EMPLOYER

**STATE OF HAWAII DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDING

2015-001 Improve Financial Statement Preparation for Agency Fund

(Page 60)

Corrective Action Plan

DOE has confirmed with KEVGroup that the Statement of Financial Position report includes the checking account and investment account balances in the Cash and Cash Equivalents column for every school, and that the balances in the Investment column are for footnote purposes. For future fiscal year end closes, DOE will use the ending balance in the Cash and Equivalents column of the Statement of Financial Position report when preparing the Statement of Fiduciary Net Position.

*Contact Person: Tom Ishimaru, Director
Accounting Services Branch
Office of Fiscal Services*

Anticipated Completion Date: June 30, 2016

**STATE OF HAWAII DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

FINANCIAL STATEMENT FINDING

2015-002 Improve Procedures Over Tracking and Accounting for Completed Construction (Pages 60-61)

Corrective Action Plan

The Facilities Development Branch (FDB) has a process in place in which, as a project is completing construction, a Project Acceptance Letter is issued to all parties indicating that the project has been constructed in compliance with the plans and specifications and that the DOE takes beneficial occupancy.

FDB will initiate a new procedure in which an audit of projects will be completed quarterly to ensure compliance. A copy of each Project Acceptance will be sent to the Accounting Services Branch for their records. This will ensure timely notifications when projects are completed.

*Contact Person: Duane Kashiwai, Public Works Administrator
Facilities Development Branch
Office of School Facilities and Support Services*

Anticipated Completion Date: July 1, 2016

**STATE OF HAWAII DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2015**

FEDERAL AWARD FINDING

**2015-003 Improve Record Maintenance for Documentation of Students
Excluded From the Four-Year Adjusted Cohort Graduation Rate**

(Page 62)

Corrective Action Plan

The Assessment and Accountability Branch Accountability Section (ACCT) is responsible for computing the four-year Adjusted Cohort Graduation Rate (ACGR) for the Hawaii Department of Education (DOE). ACCT uses data from the DOE's Student Information System (SIS) to compute the ACGR. The Office of Information Technology Services (OITS) is responsible for the SIS, in which registrars input student exits, and support the high school registrars. This corrective action plan calls for the Data Governance and Analysis Branch (DGA), who is responsible for the HIDEOE's data quality, to oversee this plan. The corrective action plan involves documenting the procedural guidelines regarding students exiting DOE's public school system (e.g., to a school in another state or country, via a Form 4140, or death) and the documents necessary for schools to have on file. Other corrective actions include OITS notifying all high school registrars of these procedural guidelines through an office department memo and ACCT, defining valid "transfers" in the annual "Verification of Student Exits for Dropout Statistics" memo which instructs the registrars to "verify the status" of all mainland transfers used for the ACGR.

- 1. OITS, with the assistance of DGA and ACCT, will document the procedural guidelines regarding students who exit DOE's public school system (e.g., to a school in another state or country, via a Form 4140, or death) and the documents necessary for schools to have on file.*
- 2. OITS will notify high school registrars of these procedural guidelines through an official department memo. Other means of communicating the guidelines will be discussed by DGA, OITS, and ACCT and used where appropriate.*
- 3. ACCT will provide information as to what qualifies as a transfer in the annual "Verification of Student Exits for Dropout Statistics" memo which instructs the registrars to "verify the status" of all mainland transfers used for the ACGR.*

*Contact Person: Jan Fukada, Acting Director
Data Governance and Analysis Branch
Office of Strategy, Innovation, and Performance*

Anticipated Completion Date: December 15, 2016

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, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-001 Review Accounting of Compensated Absences Balances
(Page 57 of the Prior Year June 30, 2014 Report)

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

2014-002 Strengthen Accounting and Reporting For Community Investment Grant
(Pages 58 to 59 of the Prior Year June 30, 2014 Report)

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