

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

Fiscal Year Ended June 30, 2013

**Submitted by
The Auditor
State of Hawaii**



March 28, 2014

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, 2013. 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, 2013, 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 an opinion 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, 2013, in accordance with accounting principles generally accepted in the United States of America.
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, 2013.

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, 2013, and our opinion 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 - Corrective action plan 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.



Brian Isobe
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 AUDITORS' 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, 2013, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Charter Schools which represent 9%, 16%, and 3% respectively, of the total assets, fund balances, and revenues 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

auditors' 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 audits and the report 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, 2013, and the respective changes in financial position, 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, where applicable, 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, 2013, and the changes in its financial position, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, 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 28, 2014, 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 28, 2014

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2013**

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, 2013. 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, Library 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-party and coordinated by the PCS.

FINANCIAL HIGHLIGHTS

Key government-wide financial highlights for fiscal year ended June 30, 2013 (FY 2013) compared to the prior fiscal year ended June 30, 2012 (FY 2012) are follows:

- Total FY 2013 revenues were \$2.404 billion, an increase of 23% or \$443 million from \$1.961 billion in FY 2012.
- Total FY 2013 expenses were \$2.354 billion, an increase of 1% or \$26 million from \$2.328 billion in FY 2012.
- Of the total FY 2013 expenses of \$2.355 billion, 94% or \$2.205 billion was spent for school-related activities. Of the total FY 2012 expenses of \$2.328 billion, 93% or \$2.160 billion was spent for school-related activities.
- Total assets exceeded liabilities as of June 30, 2013 by \$1.370 billion (net position), compared to \$1.280 billion as of June 30, 2012, an increase of 7%.
- Capital assets, net of accumulated depreciation, comprised 97% and 93% of total net position as of June 30, 2013 and 2012, respectively.

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2013**

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.

Fiduciary funds are used to account for resources held for the benefit of parties outside the Department. The Department reports on agency funds (or local

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2013**

school funds as the term is are 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, 2013**

**Exhibit A-1
Government-Wide Statements of Net Position
Fiscal years 2013 and 2012
(Amounts in millions)**

	Governmental activities		2013 - 2012	
	2013	2012	Increase (decrease)	Percentage change
Assets:				
Current	\$ 430.0	428.0	2.0	-- %
Noncurrent (capital assets, net of depreciation)	<u>1,331.0</u>	<u>1,195.7</u>	<u>135.3</u>	11 %
Total assets	<u>\$ 1,761.0</u>	<u>1,623.7</u>	<u>137.3</u>	8 %
Liabilities:				
Current	\$ 283.5	253.1	30.4	12 %
Noncurrent	<u>107.3</u>	<u>90.7</u>	<u>16.6</u>	18 %
Total liabilities	<u>390.8</u>	<u>343.8</u>	<u>47.0</u>	14 %
Net position:				
Investment in capital assets	1,330.9	1,195.6	135.3	11 %
Restricted	31.7	--	31.7	100 %
Unrestricted	<u>7.6</u>	<u>84.3</u>	<u>(76.7)</u>	(91) %
Total net position	<u>1,370.2</u>	<u>1,279.9</u>	<u>90.3</u>	7 %
Total liabilities and net position	<u>\$ 1,761.0</u>	<u>1,623.7</u>	<u>137.3</u>	8 %

Overall Financial Position - The Department's overall net position has increased as of June 30, 2013 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 \$90.3 million, or 7%, primarily due to an increased investment in capital assets.

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2013**

**Exhibit A-2
Government-Wide Changes of Net Position
Fiscal years 2013 and 2012
(Amounts in millions)**

	Governmental activities		2013 - 2012	
			Increase	Percentage
	2013	2012	(decrease)	change
Revenues:				
Program revenues:	\$ 56.0	65.8	(9.8)	(15) %
Charges for services				
Operating grants and contributions	334.5	305.1	29.4	10 %
General revenues:				
State allotted appropriations, net of lapses	1,578.9	1,590.4	(11.5)	(1) %
Non-imposed employee wages and fringe benefits	434.4	--	434.4	100 %
Unrestricted investment earnings	<u>0.1</u>	<u>0.1</u>	<u>--</u>	<u>--</u> %
Total	\$ <u>2,403.9</u>	<u>1,961.4</u>	<u>442.5</u>	23 %
Transfers, net	40.9	399.6	(358.7)	(90) %
Expenses:				
School-related	2,205.0	2,159.6	45.4	2 %
State and complex area administration	60.4	52.1	8.3	16 %
Public libraries	49.7	46.3	3.4	7 %
Capital outlay	<u>39.4</u>	<u>70.2</u>	<u>(30.8)</u>	<u>(44) %</u>
Total	<u>2,354.5</u>	<u>2,328.2</u>	<u>26.3</u>	1 %
Change in net position	\$ <u><u>90.3</u></u>	<u><u>32.8</u></u>	<u><u>57.5</u></u>	175 %

Overall Results of Operations - The Department's results of operations for FY 2013 have resulted in an increase in net position of \$90.3 million, which is fairly consistent to the increase in net position of \$32.8 million for the prior FY 2012. Total FY 2013 expenses were \$2.354 billion, a decrease of 1% or \$26 million from \$2.328 billion in FY 2012.

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2013**

GOVERNMENTAL FUND FINANCIAL ANALYSIS

Within the governmental fund financial statements, although the overall net change in fund balance for FY 2013 was a deficit of \$30.6 million, the total overall fund balance for the governmental funds as of June 30, 2013 was a positive \$177.8 million.

General Fund Budget Results - The Department was appropriated general funds of \$1.438 billion in FY 2013. Decreases of "Final" compared to "Original" budgeted amounts as reported on the Statements of Revenues and Expenditures - Budget and Actual (Budgetary Basis) - General Fund are primarily due to legislative appropriations due to collective bargaining compensation changes, as well as budget restrictions placed by the Governor.

For the General Fund, the Department is allowed to carry over up to 5% of any appropriation at the end of the fiscal year. 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, 2013, general funds carried over totaled \$28.4 million, representing 2% of general fund appropriations.

Federal Fund Budget Results - The Department received \$16.6 million more federal funds than it expended during FY 2013; this merely reflects the timing of expenditures versus federal cash that may have been received during the fiscal year.

AGENCY FUNDS

Agency funds, or "local school funds," are held for students in a custodial capacity and do not require deposit into the State Treasury. The fund contains monies collected and maintained by schools for students. Examples include yearbook, newspaper fund, student government dues, physical education uniform sales, and excursions. The funds are used for school activities that take place outside formal class periods and are not required for class work or credit. Agency fund due to the students and others was \$24.0 million in FY 2013 representing a 2% decrease from the prior fiscal year balance of \$24.5 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, employee, and the public.

**Department of Education
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2013**

The Department's capital assets as of June 30, 2013 amounted to \$1.3 billion (net of accumulated depreciation of \$1.4 billion), an increase of \$135.3 million. Depreciation expense for FY 2013 amounted to \$85.2 million.

The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, and related expenses. These commitments amounted to approximately \$284.6 million as of June 30, 2013.

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 statement.

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, 2013**

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 379,034,920
Receivables	
Due from federal government	38,839,223
Due from other agencies	835,146
Accounts receivable	11,324,119
Total current assets	430,033,408
Capital assets, net of accumulated depreciation	1,330,977,433
Total assets	\$ 1,761,010,841
LIABILITIES AND NET POSITION	
Current liabilities	
Vouchers and contracts payable	\$ 128,055,286
Accrued wages and employee benefits	119,145,815
Accrued compensated absences	17,714,043
Workers' compensation claims reserve	13,561,629
Due to State of Hawaii general fund	5,000,000
Total current liabilities	283,476,773
Accrued compensated absences, less current portion	49,466,700
Workers' compensation claims reserve, less current portion	57,815,365
Total liabilities	390,758,838
Net position	
Invested in capital assets	1,330,977,433
Restricted	31,697,122
Unrestricted	7,577,448
Total net position	1,370,252,003
Total liabilities and net position	\$ 1,761,010,841

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2013**

		Program revenues		
	Expenses	Charges for services	Operating grants and contributions	Net revenue (expenses) and change in net assets Governmental activities
Governmental activities:				
School-related	\$ 2,204,962,159	\$ 53,163,186	\$ 329,797,706	\$ (1,822,001,267)
State and complex area administration	60,373,465	695,105	2,863,150	(56,815,210)
Public libraries	49,735,669	2,095,038	1,839,235	(45,801,396)
Capital outlay	39,411,810	--	--	(39,411,810)
Total governmental activities	\$ 2,354,483,103	\$ 55,953,329	\$ 334,500,091	(1,964,029,683)
General revenues:				
State allotted appropriations, net of lapses				1,578,937,553
Nonimposed employee wages and fringe benefits				434,406,584
Unrestricted investment earnings				112,803
Total general revenues				2,013,456,940
Other financing sources (uses):				
Transfers in				43,326,467
Transfers out				(2,451,862)
Net transfers				40,874,605
Change in net position				90,301,862
Net position at June 30, 2012				1,279,950,141
Net position at June 30, 2013				\$ 1,370,252,003

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	<u>General</u>	<u>Federal</u>	<u>Capital Projects</u>	<u>Other</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 142,347,779	\$ 148,825,025	\$ 14,134,033	\$ 73,728,083	\$ 379,034,920
Receivables					
Due from federal government	--	38,839,223	--	--	38,839,223
Due from other agencies	--	--	--	835,146	835,146
Accounts receivable	<u>--</u>	<u>--</u>	<u>--</u>	<u>11,324,119</u>	<u>11,324,119</u>
Total assets	<u>\$ 142,347,779</u>	<u>\$ 187,664,248</u>	<u>\$ 14,134,033</u>	<u>\$ 85,887,348</u>	<u>\$ 430,033,408</u>
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES					
Vouchers and contracts payable	\$ 45,132,798	\$ 19,430,037	\$ 58,667,059	\$ 4,825,392	\$ 128,055,286
Accrued wages and employee employee benefits payable	110,325,379	6,583,202	248,525	1,988,709	119,145,815
Due to State general fund	<u>5,000,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,000,000</u>
Total liabilities	<u>160,458,177</u>	<u>26,013,239</u>	<u>58,915,584</u>	<u>6,814,101</u>	<u>252,201,101</u>
FUND BALANCES (DEFICITS)					
Restricted	--	31,697,122	--	--	31,697,122
Committed	--	--	--	79,073,247	79,073,247
Assigned	--	129,953,887	--	--	129,953,887
Unassigned	<u>(18,110,398)</u>	<u>--</u>	<u>(44,781,551)</u>	<u>--</u>	<u>(62,891,949)</u>
Total fund balances (deficits)	<u>(18,110,398)</u>	<u>161,651,009</u>	<u>(44,781,551)</u>	<u>79,073,247</u>	<u>177,832,307</u>
Total liabilities and fund balances (deficits)	<u>\$ 142,347,779</u>	<u>\$ 187,664,248</u>	<u>\$ 14,134,033</u>	<u>\$ 85,887,348</u>	<u>\$ 430,033,408</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, 2013

Total fund balances - governmental funds	\$	177,832,307
 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	\$ 2,695,355,993	
Less accumulated depreciation	<u>(1,364,378,560)</u>	1,330,977,433
 Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.		
		(67,180,743)
 Accrued workers' compensation liability is not due in the current period and, therefore, is not reported in the funds.		
		<u>(71,376,994)</u>
 Net position of governmental activities	 \$	 <u>1,370,252,003</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, 2013**

	<u>General</u>	<u>Federal</u>	<u>Capital Projects</u>	<u>Other</u>	<u>Total</u>
REVENUES					
State allotments, net	\$ 1,420,377,798	\$ --	\$ 151,644,077	\$ 6,915,678	\$ 1,578,937,553
Nonimposed employee wages and fringe benefits	434,406,584	--	--	--	434,406,584
Intergovernmental revenues	--	325,752,644	--	1,230,699	326,983,343
Other revenues	--	--	--	63,582,880	63,582,880
	<u>1,854,784,382</u>	<u>325,752,644</u>	<u>151,644,077</u>	<u>71,729,257</u>	<u>2,403,910,360</u>
EXPENDITURES					
School-related	1,766,697,820	293,723,422	--	74,679,955	2,135,101,197
State and complex area administration	55,277,530	3,507,398	--	776,541	59,561,469
Public libraries	34,697,418	1,276,547	--	1,745,657	37,719,622
Capital outlay	<u>1,165,601</u>	<u>498,008</u>	<u>198,734,191</u>	<u>567,503</u>	<u>200,965,303</u>
	<u>1,857,838,369</u>	<u>299,005,375</u>	<u>198,734,191</u>	<u>77,769,656</u>	<u>2,433,347,591</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,053,987)</u>	<u>26,747,269</u>	<u>(47,090,114)</u>	<u>(6,040,399)</u>	<u>(29,437,231)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	--	--	--	1,241,843	1,241,843
Transfers out	<u>--</u>	<u>(1,241,842)</u>	<u>(1,210,020)</u>	<u>--</u>	<u>(2,451,862)</u>
Net transfers	<u>--</u>	<u>(1,241,842)</u>	<u>(1,210,020)</u>	<u>1,241,843</u>	<u>(1,210,019)</u>
NET CHANGE IN FUND BALANCES (DEFICITS)	(3,053,987)	25,505,427	(48,300,134)	(4,798,556)	(30,647,250)
FUND BALANCES (DEFICIT) AT					
JULY 1, 2012	<u>(15,056,411)</u>	<u>136,145,582</u>	<u>3,518,583</u>	<u>83,871,803</u>	<u>208,479,557</u>
FUND BALANCES (DEFICIT) AT					
JUNE 30, 2013	\$ <u>(18,110,398)</u>	\$ <u>161,651,009</u>	\$ <u>(44,781,551)</u>	\$ <u>79,073,247</u>	\$ <u>177,832,307</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, 2013

Net change in fund balances - total government funds	\$	(30,647,250)
 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	\$ 222,171,022	
Loss on disposal of capital assets	(1,679,089)	
Less current fiscal year depreciation	<u>(85,182,061)</u>	135,309,872
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		(2,995,596)
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>(11,365,164)</u>
Change in net position of governmental activities	\$	<u>90,301,862</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, 2013**

	<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>1,437,937,060</u>	\$ <u>1,426,812,713</u>	\$ <u>1,420,377,798</u>	\$ <u>(6,434,915)</u>
EXPENDITURES				
School-related	1,367,921,462	1,361,037,761	1,327,662,348	33,375,413
State and complex area administration	41,945,114	39,053,473	37,642,973	1,410,500
Public libraries	<u>28,070,484</u>	<u>26,721,479</u>	<u>26,720,584</u>	<u>895</u>
	<u>1,437,937,060</u>	<u>1,426,812,713</u>	<u>1,392,025,905</u>	<u>34,786,808</u>
Excess of revenues over (under) expenditures	\$ <u> --</u>	\$ <u> --</u>	\$ <u>28,351,893</u>	\$ <u>28,351,893</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, 2013

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal grants	\$ <u>503,961,389</u>	\$ <u>475,864,022</u>	\$ <u>296,418,997</u>	\$ <u>(179,445,025)</u>
	<u>503,961,389</u>	<u>475,864,022</u>	<u>296,418,997</u>	<u>(179,445,025)</u>
EXPENDITURES				
School-related	499,319,948	469,799,187	276,811,325	192,987,862
State and complex area administration	3,276,197	4,146,079	1,846,516	2,299,563
Public libraries	<u>1,365,244</u>	<u>1,918,756</u>	<u>1,178,141</u>	<u>740,615</u>
	<u>503,961,389</u>	<u>475,864,022</u>	<u>279,835,982</u>	<u>196,028,040</u>
Excess of revenues over (under) expenditures	\$ <u> --</u>	\$ <u> --</u>	\$ <u>16,583,015</u>	\$ <u>16,583,015</u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
Fiscal Year Ended June 30, 2013**

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 21,991,798
Investments	<u>1,974,271</u>
Total assets	\$ <u>23,966,069</u>
LIABILITIES	
Due to student groups and others	\$ <u>23,966,069</u>
Total liabilities	\$ <u>23,966,069</u>

See accompanying notes to the basic financial statements.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

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 a third-party 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, 2013, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles (GAAP). The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually, which includes the Department's financial activities.

- (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
June 30, 2013

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
June 30, 2013**

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 expenditure when utilized or paid. The amount of accumulated vacation and reserve for workers' compensation claims at June 30, 2013 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
June 30, 2013**

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 legally restricted to expenditures for specified purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.

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

Other 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.

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

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

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

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

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

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

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.

Improvements to capital assets that materially add to the value or extend the life of the assets are capitalized. Other repairs and normal maintenance are not capitalized.

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

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

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.

(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.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (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, 2013, general funds carried over amounted to approximately \$28,352,000, representing approximately 2% of appropriations.

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

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the fiscal year ended June 30, 2013:

	<u>General</u>	<u>Federal</u>
Excess of revenues over expenditures - actual on a budgetary basis	\$ 28,351,893	\$ 16,583,015
Reserved for encumbrances at fiscal year-end	86,415,657	28,438,574
Expenditures for liquidation of prior fiscal year encumbrances	(115,278,934)	(30,194,967)
Net accrued revenues and expenditures	<u>(2,542,603)</u>	<u>10,678,805</u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	<u>\$ (3,053,987)</u>	<u>\$ 25,505,427</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, 2013 consisted of amounts held in State Treasury of approximately \$343,071,000.

- (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.

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE D - CASH AND CASH EQUIVALENTS (Continued)

- (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 anyone 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, 2013, the carrying amount of total bank deposits was approximately \$6,405,000 and the corresponding bank balances were approximately \$23,316,000. Of this amount, The PCS also held cash outside of the State Treasury totaling approximately \$29,559,000 at June 30, 2013.

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
June 30, 2013**

NOTE E - CAPITAL ASSETS

For the fiscal year ended June 30, 2013, capital assets activity for the DOE was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Government activities:				
Capital asset, not being depreciated:				
Land	\$ 88,238,609	\$ --	\$ --	\$ 88,238,609
Construction in progress	<u>122,155,289</u>	<u>155,731,932</u>	<u>(37,636,350)</u>	<u>240,250,871</u>
Total capital assets not being depreciated	<u>210,393,898</u>	<u>155,731,932</u>	<u>(37,636,350)</u>	<u>328,489,480</u>
Capital assets, being depreciated:				
Land improvements	211,019,987	8,660,060	--	219,680,047
Buildings and improvements	1,885,129,905	78,294,779	(273,760)	1,963,150,924
Furniture and equipment	96,565,592	13,324,585	(4,934,883)	104,955,294
Vehicles	10,347,552	187,411	(262,429)	10,272,534
Public library materials	<u>69,249,547</u>	<u>3,341,820</u>	<u>(3,783,653)</u>	<u>68,807,714</u>
Total capital assets being depreciated	<u>2,272,312,583</u>	<u>103,808,655</u>	<u>(9,254,725)</u>	<u>2,366,866,513</u>
Less accumulated depreciation for:				
Land improvements	(102,406,705)	(10,332,515)	--	(112,739,220)
Buildings and improvements	(1,059,300,366)	(59,076,488)	60,307	(1,118,316,547)
Furniture and equipment	(64,263,434)	(8,939,759)	3,736,032	(69,467,161)
Vehicles	(8,664,186)	(697,460)	262,429	(9,099,217)
Public library materials	<u>(52,404,229)</u>	<u>(6,135,839)</u>	<u>3,783,653</u>	<u>(54,756,415)</u>
Total accumulated depreciation	<u>(1,287,038,920)</u>	<u>(85,182,061)</u>	<u>7,842,421</u>	<u>(1,364,378,560)</u>
Government activities, net	<u>\$ 1,195,667,561</u>	<u>\$ 174,358,526</u>	<u>\$ (39,048,654)</u>	<u>\$ 1,330,977,433</u>

Depreciation expense was charged to functions as follows:

	Governmental Activities
School-related	\$ 69,352,144
State and complex area administration	749,628
Public libraries	<u>15,080,289</u>
Total additions to accumulated depreciation	<u>\$ 85,182,061</u>

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

NOTE F - LONG-TERM LIABILITIES

The change in long-term liabilities during the fiscal year ended June 30, 2013, was as follows:

	<u>Accrued compensated absences</u>	<u>Workers' compensation claims</u>
Balance at July 1, 2012	\$ 64,185,147	\$ 60,011,830
Additions	27,060,940	21,585,422
Reductions	<u>(24,065,344)</u>	<u>(10,220,258)</u>
Balance at June 30, 2013	67,180,743	71,376,994
Less current portion	<u>(17,714,043)</u>	<u>(13,561,629)</u>
	\$ <u>49,466,700</u>	\$ <u>57,815,365</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 \$74 million is reported at present value using a discount rate of 2%.

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> - FNS November 15 Commodity File Report for the SY 2013 Prices. 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 \$4,847,000 of commodities for the fiscal year ended June 30, 2013. No bonus commodities were received for the fiscal year ended June 30, 2013.

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

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 \$434,407,000 for the fiscal year ended June 30, 2013, 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 2020. Future minimum lease rentals under noncancelable operating leases with terms of one year or more at June 30, 2013 were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 4,296,000
2015	3,157,000
2016	2,346,000
2017	1,543,000
2018	705,000
2019 - 2020	<u>248,000</u>
	<u>\$ 12,295,000</u>

Total rent expense related to the above leases for the year ended June 30, 2013 amounted to approximately \$4,925,000.

NOTE J - RETIREMENT BENEFITS

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

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

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

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

NOTE J - RETIREMENT BENEFITS (Continued)

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

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

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

Contributory Plan

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

Hybrid Plan

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

Noncontributory Plan

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

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

NOTE J - RETIREMENT BENEFITS (Continued)

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

The pension contributions made by the Department for the years ended June 30, 2013, 2012, and 2011 of approximately \$181,810,000, \$175,613,000, and \$178,738,000, respectively, were equal to the required contributions for each year. The contribution rate for the fiscal years ended June 30, 2013, 2012, and 2011 were 15.51%, 15.00%, and 15.00%, respectively. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Department.

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

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

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

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

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

**Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

NOTE J - RETIREMENT BENEFITS (Continued)

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

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self-plan. For employees hired after June 30, 2001, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium, for those retiring with over 25 years of service, the State pays the entire healthcare premium.

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

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

The Department's share of the expense for post-retirement health care and life insurance benefits for the fiscal years ended June 30, 2013, 2012 and 2011 were approximately \$121,324,000, \$ 93,191,000 and \$94,851,000, respectively.

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

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

(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
June 30, 2013**

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 Department is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1,000,000 per occurrence minimum. The policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$225,000,000, except for flood and earthquake, which individually is a \$225,000,000 aggregate loss and terrorism, which is \$50,000,000 per occurrence and a \$25,000 deductible.

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence, except for claims expense coverage, which has a \$100,000 limit per occurrence and a \$1,000 deductible. Losses not covered by insurance are paid from legislative appropriations or the State's General Fund.

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

The Department is self-insured for automobile no-fault workers' compensation losses. Automobile losses are administered by the State's third-party administrators. The Department administers its workers' compensation losses.

Department of Education
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE K - RISK MANAGEMENT (Continued)

A liability for workers' compensation is established if information indicates that a loss has been incurred as of June 30, 2013, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. 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, 2013 were as follows:

Fund	Amount
General Fund	\$ 91,723,252
Federal Fund	36,318,674
Capital Projects Fund	284,576,623
Other Funds	<u>6,849,359</u>
	<u>\$ 419,467,908</u>

- (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, 2013**

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		\$ 10,287,276	\$ 630,056
National School Lunch Program	10.555			
Cash assistance			43,933,967	2,369,847
Cash assistance (commodities)			4,847,301	--
Subtotal - National School Lunch Program			<u>48,781,268</u>	<u>2,369,847</u>
Special Milk Program for Children	10.556		1,187	1,187
Summer Food Service Program for Children	10.559			
Cash assistance			521,744	519,744
State administrative expense			17,642	--
Subtotal - Summer Food Service Program for Children			<u>539,386</u>	<u>519,744</u>
Total - Child Nutrition Cluster			<u>59,609,117</u>	<u>3,520,834</u>
Child and Adult Care Food Program	10.558		7,219,734	7,144,954
State Administrative Expense for Child Nutrition	10.560		1,592,385	--
Team Nutrition Grant	10.574		27,246	--
Child Nutrition Discretionary Grants Limited Availability	10.579		6,841	6,841
Fresh Fruit and Vegetable Program	10.582		1,487,095	185,657
Total - U.S. Department of Agriculture			<u>69,942,418</u>	<u>10,858,286</u>
U.S. Department of Defense				
Thinking Through Science	12.030		618,502	--
DoD Impact Aid	12.558		3,230,945	--
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556			
Math Learners			535,021	--
Expanding Virtual Learning Opportunities			411,176	--
Implement Blended Learning			235,503	--
AVID Radford Complex			191,069	--
Total - DoDEA Grant Program			1,372,769	--
Bridging the Mathematical Continuum	650109		22,657	--
Passed-through U.S. Pacific Command Joint Venture Education Forum	913	99-0266482	466,498	--
Total - U.S. Department of Defense			<u>\$ 5,711,371</u>	<u>\$ --</u>

¹ Other identifying number used if no CFDA number available.

**Department of Education
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2013**

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		\$ 1,605,736	\$ --
Title I - Grants to Local Educational Agencies	84.010		43,810,742	--
Migrant Education - State Grant Program	84.011		875,856	--
Title I - Program for Neglected and Delinquent Children	84.013		338,979	--
Special Education Cluster				
Grants to States	84.027		37,843,354	--
Preschool Grants	84.173		858,241	--
Total - Special Education Cluster			<u>38,701,595</u>	<u>--</u>
Impact Aid	84.041		54,528,857	--
Migrant Education Coordination Program	84.144		110,079	--
Education and Homeless Children and Youth	84.196		219,452	--
Even Start - State Educational Agencies	84.213		1,761	--
Even Start - Migrant Education	84.214		287,387	--
Fund for the Improvement of Education	84.215		2,961,469	--
Twenty-First Century Community Learning Centers	84.287		5,550,594	--
Education Technology State Grants	84.318		124,436	--
Advanced Placement Program	84.330		520,644	--
Native Hawaiian Education	84.362		616,214	--
English Language Acquisition Grants	84.365		2,532,361	--
Mathematics and Science Partnerships	84.366		871,273	--
Improving Teacher Quality State Grants	84.367		16,530,356	--
Grants for State Assessments and Related Activities	84.369		3,206,814	--
Statewide Longitudinal Data Systems	84.372		2,523,059	--
School Improvement Grants Cluster				
School Improvement Grants	84.377		592,195	--
School Improvements Grants - ARRA	84.388		2,574,495	--
Total - School Improvement Grants Cluster			<u>3,166,690</u>	<u>--</u>
Common Core of Data Survey Project	500000		12,454	--
NAEP State Coordinator	650140		186,182	--
Passed-through Office of the State of Director for Vocational Education				
Career and Technical Education - Basic Grants to States	84.048	V048A09-V048A10	2,741,478	--
Passed-through State of Department of Human Services Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	H126A70015	75,925	--

¹ Other identifying number used if no CFDA number available.

**Department of Education
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2013**

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	\$ 228,817	\$ --
Passed-through University of Hawaii Gaining Early Awareness and Readiness	84.334	P334S050013	257,394	--
Native Hawaiian Education	84.362A	S362A07-S362A11	<u>1,457,587</u>	--
Total - Passed-through University of Hawaii			<u>1,714,981</u>	--
Passed-through Office of the Governor State Fiscal Stabilization Fund, Race-to-the-Top - ARRA	84.395	S395A100051	31,927,311	--
Education Jobs Fund - ARRA	84.410	S410A100012	<u>29,159</u>	--
Total - Passed-through Office of the Governor			<u>31,956,470</u>	--
Total - U.S. Department of Education			<u>216,000,661</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		121,232	--
Passed-through State Department of Health Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	09-128	3,551	--
Passed-through State Department of Human Services Child Care and Development Block Grant	93.575	DHS-11-CCPO	224,076	--
Temporary Assistance for Needy Families	93.558	DHS-10-ETPO-154	<u>2,524,802</u>	--
Total - Passed-through State Department of Human Services			<u>2,748,878</u>	--
Total - U.S. Department of Health and Human Services			<u>2,873,661</u>	--
U.S. Department of Interior				
Passed-through State Department of Interior Economic, Social and Political Development of the Territories	15.875		<u>1,868,000</u>	--
Total - U.S. Department of Justice			<u>1,868,000</u>	--
U.S. Department of Justice				
Passed-through State Department of Justice Edward Byrne Memorial Justice Assistance Grant Program - ARRA	16.803	09-SU-24	<u>19,581</u>	--
Total - U.S. Department of Justice			<u>19,581</u>	--

¹ Other identifying number used if no CFDA number available.

**Department of Education
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-through Grantor and Program Title	Federal CFDA Number ¹	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipient
Corporation for National and Community Service				
Passed-through State Department of Labor Learn and Serve America - School and Community Based Programs	94.004	09KSPH1001	\$ <u>698,040</u>	\$ <u> --</u>
Total - Corporation for National and Community Service			<u>698,040</u>	<u> --</u>
Environmental Protection Agency				
Passed-through State Department of Health State Clean Diesel Program - ARRA	66.040	DS-96968001	<u>188</u>	<u> --</u>
Total - Environmental Protection Agency			<u>188</u>	<u> --</u>
Institute of Museum and Library Services				
Grants to States	45.310		<u>1,276,547</u>	<u> --</u>
Total - Institute of Museum and Library Services			<u>1,276,547</u>	<u> --</u>
Grand Total			<u>\$ 298,390,467</u>	<u>\$ 10,858,286</u>

¹ Other identifying number used if no CFDA number available.

**Department of Education
State of Hawaii
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2013**

Basis of Presentation

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

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

PART II

**AUDITORS' 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 AUDITORS' 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, 2013, 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 28, 2014. Our report includes a reference to other auditors who audited the financial statements of the public charter schools, as described in our report on the DOE's financial statements. This report does not include the results of the other auditors' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

We noted certain other matters that we reported to management of the DOE in a separate letter dated March 28, 2014.

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.

PART III

**AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE**

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

INDEPENDENT AUDITORS' 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 U.S. 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, 2013. The DOE's major federal programs are identified in the summary of auditors' 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.

Auditors' 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. However, our audit does not provide a legal determination on the DOE's compliance with those requirements.

Basis for Qualified Opinion on the Child Nutrition Cluster and the Special Education - Grants to States (IDEA, Part B)

As described in the accompanying schedule of findings and questioned costs, the DOE did not comply with requirements regarding the following:

CFDA Number	Name of Federal Program	Compliance Requirement	Ref. No.
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	Eligibility	2013-01
84.027	Special Education - Grants to States (IDEA, Part B)	Earmarking	2013-03

Compliance with such requirements is necessary, in our opinion, for the DOE to comply with the requirements applicable to those programs.

Qualified Opinion on the Child Nutrition Cluster and the Special Education - Grants to States (IDEA, Part B)

In our opinion, except for the noncompliance described in the Basis of Qualified Opinion paragraph, 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 the Child Nutrition Cluster and the Special Education - Grants to States (IDEA, Part B) for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other 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 identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other 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 2013-02. Our opinion on each major federal program is not modified with respect to these matters.

The DOE's response to the noncompliance findings identified in our audit are 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 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 certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-01 to 2013-03, that we consider to be significant deficiencies.

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.

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, 2013**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' 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 auditors' report issued on compliance for major programs: Unmodified for all major programs except for Child Nutrition Cluster and the Special Education - Grants to States (IDEA, Part B) which were qualified.

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
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
10.558	Child and Adult Care Food Program
12.558	National Defense Authorization
84.010	Title I - Grants to Local Educational Agencies
	Special Education Cluster:
84.027	Special Education - Grants to State (IDEA, Part B)
84.173	Special Education - Preschool Grants (IDEA Preschool)
84.041	Impact Aid
84.287	Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants
84.369	Grants for State Assessments and Related Activities

**Department of Education
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2013**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.377	School Improvement Grants Cluster: School Improvement Grants
84.388	School Improvement Grants, Recovery Act
84.395	State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as a low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

Department of Education
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2013

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Ref. <u>No.</u>	Compliance and Internal Control Findings	<u>Questioned Costs</u>
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2013-01 Perform Eligibility Determinations in Timely Manner

Federal agency: U.S. Department of Agriculture
CFDA No.: 10.553, 10.555, 10.556 and 10.559
Program: Child Nutrition Cluster:
 School Breakfast Program;
 National School Lunch Program;
 Special Milk Program for Children;
 Summer Food Service Program for Children
Federal award no.: 7HI300HI3

Criteria: 7 CFR 245.6(c)(6) states, "Notice of approval – (i) Income applications. The local educational agency must promptly notify the household of the children's eligibility and provide the eligible children the benefits to which they are entitled."

Part 3.B of the U.S. Department of Agriculture's *Eligibility Manual for School Meals* states in part, "... Applications must be reviewed in a timely manner. An eligibility determination must be made, the family notified of its status, and the status implemented within 10 operating days of the receipt of the application...."

Condition: In 13 out of 40 instances, the eligibility status determination was not completed within 10 operating days after the School Food Service Branch received the application.

Cause: We were informed that the School Food Service Branch implemented a new software during the fiscal year ended June 30, 2013. With the added task to populate data in the new system, the branch personnel were unable to review the volume of applications within the required time period.

Effect: When a family of the student is not notified of its eligibility status in a timely manner they are unable to budget appropriately and the DOE may be over- or undercharging the student for meals over a period of time. For example, a student who was previously on a free meal status but determined to be at reduced price status will need to pay more per meal.

\$ _____

Recommendation

The School Food Service Branch should obtain the required resources to perform eligibility determinations in a timely manner.

Department of Education
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2013

<u>Ref. No.</u>	<u>Compliance and Internal Control Findings (Continued)</u>	<u>Questioned Costs</u>
2013-02	Review Indirect Costs Assessment Calculation Carefully	
	<p>Federal agency: U.S. Department of Education</p> <p>Pass-through agency: Office of the Governor, State of Hawaii</p> <p>CFDA No.: 84.395</p> <p>Program: State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act</p> <p>Federal award no.: S395A100051</p> <p>Criteria: Indirect cost rate agreement no. 2012-14 dated July 1, 2011 states that the fixed restricted rate from July 1, 2012 through June 30, 2013 is 10.5%.</p> <p>Condition: The DOE erroneously calculated a one-time indirect cost assessment for the entire grant year 2 ending September 30, 2012 using the indirect cost rate of 12.9%. This rate was effective for the period from July 1, 2011 through June 30, 2012.</p> <p>Cause: New personnel calculated the indirect cost assessment using rates that were not updated to the new effective rates and the error was overlooked in the review process.</p> <p>Effect: As a result of not updating the indirect cost rate, the DOE overassessed indirect costs for the period of July 1, 2012 through September 30, 2012 by approximately \$63,000.</p> <p>Recommendation</p> <p>The DOE should review its indirect cost assessment calculations with more care to ensure all indirect costs charged to the grant is in accordance with the indirect cost rate agreement effective for the period being reported.</p>	<p>\$ <u>63,000</u></p>

Department of Education
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2013

<u>Ref. No.</u>	<u>Compliance and Internal Control Findings (Continued)</u>	<u>Questioned Costs</u>
2013-03	<p>Obtain Clarification and Approval of Methodology to Ensure Compliance with Earmarking Requirement</p> <p>Federal agency: U.S. Department of Education CFDA No.: 84.027 Program: Special Education - Grants to States (IDEA, Part B) Federal award no.: H027A110026 and H027A120026</p> <p>Criteria: 34 CFR 300.704 defines the maximum amount the State may reserve for state administration for each grant fiscal year.</p> <p>Condition: The DOE uses budgets established in their financial reporting system to comply with the maximum limit of costs to be spent for state administration or support of the Special Education program. The DOE does not consider any portion of the indirect cost assessment charges made on direct state administration costs as a part of the total state administration costs subject to this compliance requirement.</p> <p>Cause: Federal regulations allow for two separate uses of the program funds: State level and local education level. Within these two separate uses, indirect costs are allowed. Because the DOE is a unitary system where it is both the State and Local educational agency, the DOE has three separate uses of the program funds: state level activities, local education level activities and indirect costs computed on the entire grant amount. There is no documentation of approvals from the Federal government that not considering any portion of the indirect costs as part of State level expenditures is acceptable for the purpose of compliance with earmarking requirements for State level activities and administration.</p> <p>Effect: The DOE appears to be spending funds in excess of the State set-aside maximum limits of the earmarking requirement for state administration of the Special Education IDEA, Part B grant by the amount of indirect costs related to state administration. Costs in excess of the maximum limit for state administration were approximately \$55,000 and \$73,000 for the grant periods July 1, 2011 through September 30, 2012, and July 1, 2012 through September 30, 2013, respectively.</p> <p>Recommendation</p> <p>The DOE should seek clarification from the federal grantor on whether it is appropriate not to include that portion of indirect costs that relate to state administration costs as subject to the earmarking requirements for state administration of the Special Education IDEA, Part B. If determined by the federal grantor to be acceptable, written approval should be obtained.</p> <p>In addition, the DOE should monitor compliance with this requirement by documenting compliance timely, including analysis of actual costs to budgeted amounts.</p>	<p>\$ <u>55,000</u></p>

PART V

CORRECTIVE ACTION PLAN

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

NEIL ABERCROMBIE
GOVERNOR



KATHRYN S. MATAYOSHI
SUPERINTENDENT

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

OFFICE OF THE SUPERINTENDENT

March 28, 2014

N&K CPAs, Inc.
American Savings Bank Tower, Suite 1700
1001 Bishop Street
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, 2013 was completed by the March 31, 2014 Federal deadline. HIDOE will continue its efforts to decrease the audit findings even further. We are pleased that HIDOE received an unqualified opinion on its financial statements.

We have reviewed your audit findings and recommendations and corrective action plans have been prepared. In accordance with OMB Circular A-133, the following pages contain the **Corrective Action Plan** for the year ended June 30, 2013 and the **Summary Schedule of Prior Audit Findings** for the year ended June 30, 2012.

Very truly yours,

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

Kathryn S. Matayoshi
Superintendent

KSM:dy

Attachments

c: Internal Audit Office

**STATE OF HAWAII DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2013**

FEDERAL AWARD FINDINGS

2013-01 Perform Eligibility Determinations in Timely Manner

(Page 59)

Corrective Action Plan

School Food Services Branch staff met the required turnaround time for applications in SY2013-2014, since the new data base was populated in SY2012-2013. Corrective action not required as eligibility deadlines were met.

*Contact Person: Glenna Owens, Director
School Food Services Branch
Office of School Facilities and Support Services*

Anticipated Completion Date: Completed

Corrective Action Plan

The Office of Strategic Reform (OSR) business manager will calculate actual over-assessed indirect cost amount for the period of July 1, 2012 through September 30, 2012. The business manager will also review Year One and Year Three for similar discrepancies. The total amount of over-assessed indirect costs during the 3-month period from July to September for all three years will be applied as credit toward the first quarter of Year Four indirect costs. This credit transaction will be completed prior to April 30, 2014.

For the remaining period of Race to the Top Grant implementation, the OSR business manager under the guidance of the Office of Fiscal Services' (OFS) executive assistant will ensure the correct rate is used to calculate Year Four indirect costs for the periods of July 1, 2013 to June 30, 2014 and July 1, 2014 to September 30, 2014.

*Contact Person: Stephen Schatz, Assistant Superintendent
Office of Strategic Reform*

Anticipated Completion Date: April 30, 2014

2013-03 **Establish Monitoring Procedures to Ensure Compliance with Earmarking Requirement**

(Page 61)

Corrective Action Plan

The Hawaii State Department of Education (Department) will be informing the U.S. Department of Education, Office of Special Education Programs (USDOE-OSEP) of its past practice of not including the portion of the indirect cost that relates to state administration costs as subject to the earmarking requirements for state administration under the Individuals with Disabilities Education Act, Part B (IDEA). The Department will inform USDOE-OSEP that it will change its practice beginning with the next fiscal year.

Beginning with the School Fiscal Year 2015 (i.e., Federal Fiscal Year 2014, School Year 2014-2015), the Department will create a separate program identification code for its state administration, and will allocate into such program code the maximum allowable amount the state may set-aside for state level activities and administration. The Department will change its practice by:

- 1) Ensuring that the indirect cost amount is considered as part of the amount the state may set-aside for state-level activities and administration;*
- 2) The funds in the program identification code for the IDEA state administration funds will be Non-FIFO (First In, First Out); and*
- 3) The Department will no longer compute indirect costs on the entire grant amount.*

The changes to practice will ensure that the Department will have proper controls in place to demonstrate the appropriate allocation and expenditures of the state administrative set-aside and indirect costs.

*Contact Person: Shari Dela Cuadra-Larsen, Acting Director
Special Projects Office
Office of the Deputy Superintendent*

Anticipated Completion Date: June 30, 2014

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, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-01 Cash Management

(Pages 55 to 57 of the Prior Year June 30, 2012 Report)
(Pages 58 to 60 of the June 30, 2011 Report)
(Pages 60 to 61 of the June 30, 2010 Report)
(Pages 76 to 77 of the June 30, 2009 Report)
(Pages 74 to 76 of the June 30, 2008 Report)
(Pages 71 to 73 of the June 30, 2007 Report)
(Page 69 of the June 30, 2006 Report)

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

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

(Pages 58 to 59 of the Prior Year June 30, 2012 Report)
(Pages 65 to 67 of the June 30, 2011 Report)
(Pages 71 to 73 of the June 30, 2010 Report)
(Pages 84 to 85 of the June 30, 2009 Report)
(Pages 84 to 85 of the June 30, 2008 Report)
(Pages 78 to 80 of the June 30, 2007 Report)

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

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

(Pages 60 to 62 of the Prior Year June 30, 2012 Report)

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