



Department of Education State of Hawaii

Financial and Compliance Audit

June 30, 2021

**Submitted by
The Auditor
State of Hawaii**

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State of Hawaii
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June 30, 2021

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PART I
Financial Statements



Report of Independent Auditors

The Auditor
State of Hawaii

Board of Education
Department of Education
State of Hawaii

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, State of Hawaii (the "Department"), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the index.

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 certain public charter schools, which represent 7% of the total assets and 6% of the total fund balances as of June 30, 2021, and 4% of total revenues for the year ended June 30, 2021, of the Department's governmental funds. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the public charter schools, are based solely 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

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statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of the Department, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2020 and for the year then ended were audited by other auditors whose report dated March 25, 2021 expressed an unmodified opinion on those statements.

Emphasis of Matters

As discussed in Note 1, 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 and the special revenue fund of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as June 30, 2021, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, effective July 1, 2020, the Department adopted Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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 Department's basic financial statements. The schedule of expenditures by agency and the schedule of expenditures of federal awards are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2022 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
March 31, 2022

Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2021

As management of the Department of Education, State of Hawaii (the "Department") we offer readers this narrative overview and analysis of the financial activities of the Department as of and for the year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to enhance their understanding of the Department's financial performance.

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

Financial Highlights

Implementation of GASB Statement No. 84

During fiscal year 2021, the Department implemented Governmental Accounting Standards Board ("GASB") Statement No. 84, *Fiduciary Activities*.

The adoption of Statement No. 84 resulted in the restatement of the Department's July 1, 2020 governmental activities and governmental funds to reflect assets and liabilities of nonfiduciary activities in accordance with provisions of Statement No. 84.

Net position and fund balance for governmental activities and governmental funds increased by approximately \$29.7 million.

Key government-wide financial highlights for the year ended June 30, 2021 ("FY 2021") compared to the prior year ended June 30, 2020 ("FY 2020") are as follows:

- Total FY 2021 revenues were \$3.315 billion, a decrease of 4% or \$135 million from \$3.450 billion in FY 2020.
- Total FY 2021 expenses were \$3.083 billion, a decrease of 5% or \$176 million from \$3.259 billion in FY 2020.
- Of the total FY 2021 expenses of \$3.083 billion, 94% or \$2.889 billion, was spent for school-related activities. Of the total FY 2020 expenses of \$3.259 billion, 93% or \$3.041 billion was spent for school-related activities.
- Total assets exceeded liabilities as of June 30, 2021 by \$3.148 billion (net position), compared to \$2.887 billion as of June 30, 2020, an increase of 9% or \$261 million.
- Net investment in capital assets comprised 66% and 69% of the total net position as of June 30, 2021 and 2020, respectively.

Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2021

Overview of the Financial Statements

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

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 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.

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

Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2021

Government-Wide Financial Analysis

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

Summary Schedule of Net Position
June 30, 2021 and 2020
(Amounts in millions)

	Governmental Activities		2021 – 2020	
	2021	2020	Increase (Decrease)	Percentage Change
Assets				
Current	\$ 1,649.9	\$ 1,469.3	\$ 180.6	12 %
Capital assets, net	<u>2,073.1</u>	<u>1,985.9</u>	<u>87.2</u>	4 %
Total assets	<u>\$ 3,723.0</u>	<u>\$ 3,455.2</u>	<u>\$ 267.8</u>	8 %
Liabilities				
Current	\$ 362.3	\$ 362.4	\$ (0.1)	0 %
Noncurrent	<u>212.6</u>	<u>205.7</u>	<u>6.9</u>	3 %
Total liabilities	<u>574.9</u>	<u>568.1</u>	<u>6.8</u>	1 %
Net position				
Net investment in capital assets	2,073.1	1,985.9	87.2	4 %
Unrestricted	<u>1,075.0</u>	<u>901.2</u>	<u>173.8</u>	19 %
Total net position	<u>3,148.1</u>	<u>2,887.1</u>	<u>261.0</u>	9 %
Total liabilities and net position	<u>\$ 3,723.0</u>	<u>\$ 3,455.2</u>	<u>\$ 267.8</u>	8 %

Overall Financial Position – The Department's overall net position has increased as of June 30, 2021 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 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 \$261 million, or 9%, primarily due to an increase in net investment in capital assets of \$87 million and an increase in unrestricted net position of \$174 million.

Department of Education
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2021

Summary Schedule of Changes in Net Position
Years Ended June 30, 2021 and 2020
(Amounts in millions)

	Governmental Activities		2021 – 2020	
	2021	2020	Increase (Decrease)	Percentage Change
Revenues				
Program revenues				
Charges for services	\$ 37.7	\$ 57.7	\$ (20.0)	-35 %
Operating grants and contributions	388.2	261.5	126.7	48 %
Capital grants and contributions	1.7	11.8	(10.1)	-86 %
General revenues				
State-allotted appropriations, net of lapses	2,153.5	2,267.2	(113.7)	-5 %
Nonimposed employee wages and fringe benefits	733.0	850.7	(117.7)	-14 %
Unrestricted investment earnings	0.5	0.6	(0.1)	-17 %
Total revenues	<u>3,314.6</u>	<u>3,449.5</u>	<u>(134.9)</u>	-4 %
Expenses				
School-related	2,889.1	3,041.1	(152.0)	-5 %
State and complex area administration	88.4	80.9	7.5	9 %
Public libraries	48.2	60.8	(12.6)	-21 %
Capital outlay	57.5	76.6	(19.1)	-25 %
Total expenses	<u>3,083.2</u>	<u>3,259.4</u>	<u>(176.2)</u>	-5 %
Change in net position	<u>\$ 231.4</u>	<u>\$ 187.7</u>	<u>\$ 43.7</u>	23 %

Overall Results of Operations – The Department's results of operations for FY 2021 have resulted in an increase in net position of \$231 million. This is higher than the increase in net position of \$188 million for FY 2020. Total FY 2021 expenses were \$3.083 billion, a decrease of 5% or \$176.2 million from \$3.259 billion in FY 2020.

Governmental Fund Financial Analysis

Within the governmental fund financial statements, the overall net increase in fund balance for FY 2021 was \$153 million, and the total overall fund balance for the governmental funds as of June 30, 2021, was \$1.331 billion.

General Fund Budget Results – The Department was appropriated general funds of \$1.793 billion in FY 2021. Increases of "Final" compared to "Original" budgeted amounts as reported on the Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund are primarily due to legislative appropriations due to collective bargaining compensation changes.

Department of Education
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Management's Discussion and Analysis (Unaudited)
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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 Department's single-school calendar, schools start their school year in July statewide, within weeks of the beginning of the fiscal year. For the year ended June 30, 2021, general funds carried over totaled to approximately \$84.7 million, representing approximately 4.7% of general fund appropriations.

Federal Fund Budget Results – The Department appropriated \$13.8 million less federal funds than were expended during FY 2021; this merely reflects the timing of expenditures versus federal cash that may have been received during the fiscal year.

Capital Assets

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

The Department's capital assets as of June 30, 2021 amounted to \$2.073 billion (net of accumulated depreciation of \$2.225 billion), an increase of \$87 million, compared to capital assets as of June 30, 2020, which amounted to \$1.986 billion (net of accumulated depreciation of \$2.144 billion). Depreciation expense for FY 2021 amounted to \$108 million.

The Department is committed under contracts awarded and orders placed for construction, repairs and maintenance, and related expenses. These commitments amounted to approximately \$695 million.

Additional information on the Department's capital assets and construction contract commitments can be found in Note 5 and Note 12 to the financial statements.

Debt Administration

In July 2017, the Department entered into an interest-free term loan agreement with the State's Hawaii Green Infrastructure Authority ("HGIA"). The maximum loan amount is not to exceed \$46.4 million. During FY 2020, the loan amount was adjusted down to \$39.3 million. The final loan maturity date is June 30, 2036. The loan is unsecured and requires semi-annual payments starting December 31, 2018, and each June 30 and December 31 thereafter, up to and including the final maturity date. The principal outstanding as of June 30, 2021 is approximately \$29 million.

In August 2019, the Department entered into a term loan agreement with HGIA. The maximum loan amount is not to exceed \$6.7 million. The final loan maturity date is June 30, 2033. The loan is unsecured and requires semi-annual payments starting December 31, 2019, and each June 30 and December 31 thereafter, up to and including the final maturity date. The interest rate is 3.5%. The principal outstanding as of June 30, 2021 is approximately \$5 million.

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In October 2020, the Department entered into a term loan agreement with HGIA. The maximum loan amount is not to exceed \$4.0 million. The final loan maturity date is December 31, 2021. The loan is unsecured and requires semi-annual payments starting June 30, 2021, and each June 30 and December 31 thereafter, up to and including the final maturity date. The interest rate is 3.5%. The principal outstanding as of June 30, 2021 is approximately \$117,000.

Additional information on the Department's long-term debt can be found in Note 6 to the financial statements.

Requests for Information

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

Department of Education
State of Hawaii
Statement of Net Position – Governmental Activities
June 30, 2021

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 1,586,383,696
Receivables	
Due from federal government	38,788,359
Accounts receivable	3,729,811
Due from other agencies	20,994,090
Total current assets	<u>1,649,895,956</u>
Capital assets, net of accumulated depreciation	<u>2,073,094,455</u>
Total assets	<u><u>\$ 3,722,990,411</u></u>
Liabilities and Net Position	
Liabilities	
Current liabilities	
Vouchers and contracts payable	\$ 145,417,120
Accrued wages and employee benefits	168,133,376
Accrued compensated absences	23,730,888
Workers' compensation claims reserve	17,504,034
Due to State of Hawaii general fund	5,000,000
Notes payable	2,529,422
Total current liabilities	<u>362,314,840</u>
Accrued compensated absences, less current portion	63,472,782
Workers' compensation claims reserve, less current portion	117,142,385
Notes payable, less current portion	31,935,538
Total liabilities	<u><u>574,865,545</u></u>
Net position	
Net investment in capital assets	2,073,094,455
Unrestricted	1,075,030,411
Total net position	<u><u>3,148,124,866</u></u>
Total liabilities and net position	<u><u>\$ 3,722,990,411</u></u>

The accompanying notes are an integral part of these financial statements.

Department of Education
State of Hawaii
Statement of Activities – Governmental Activities
Year Ended June 30, 2021

		Program Revenues			Net Revenue (Expenses) and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
School-related	\$ 2,889,145,370	\$ 37,241,302	\$ 385,071,200	\$ -	\$ (2,466,832,868)
State and complex area administration	88,355,252	-	1,106,104	-	(87,249,148)
Public libraries	48,207,046	468,330	2,002,774	-	(45,735,942)
Capital outlay	57,518,967	-	-	1,657,832	(55,861,135)
Total governmental activities	<u>\$ 3,083,226,635</u>	<u>\$ 37,709,632</u>	<u>\$ 388,180,078</u>	<u>\$ 1,657,832</u>	(2,655,679,093)
General revenues					
State-allocated appropriations, net of lapses					2,153,585,357
Nonimposed employee wages and fringe benefits					733,013,251
Unrestricted investment earnings					479,404
Total general revenues					<u>2,887,078,012</u>
Change in net position					231,398,919
Net position at July 1, 2020, as originally stated					2,887,061,820
Net position at July 1, 2020, restatement					<u>29,664,127</u>
Net position at July 1, 2020, as restated					<u>2,916,725,947</u>
Net position at June 30, 2021					<u>\$ 3,148,124,866</u>

The accompanying notes are an integral part of these financial statements.

Department of Education
State of Hawaii
Balance Sheet – Governmental Funds
June 30, 2021

	General	Federal	Capital Projects	Other	Total
Assets					
Cash and cash equivalents	\$ 205,552,658	\$ 133,642,268	\$ 1,104,751,193	\$ 142,437,577	\$ 1,586,383,696
Receivables					
Due from federal government	-	38,788,359	-	-	38,788,359
Accounts receivable	-	-	-	20,994,090	20,994,090
Due from other agencies	-	-	-	3,729,811	3,729,811
Total assets	<u>\$ 205,552,658</u>	<u>\$ 172,430,627</u>	<u>\$ 1,104,751,193</u>	<u>\$ 167,161,478</u>	<u>\$ 1,649,895,956</u>
Liabilities and Fund Balances					
Liabilities					
Vouchers and contracts payable	\$ 45,519,950	\$ 19,532,115	\$ 75,793,538	\$ 4,571,517	\$ 145,417,120
Accrued wages and employee benefits	152,234,193	15,238,428	-	660,755	168,133,376
Due to the State of Hawaii general fund	5,000,000	-	-	-	5,000,000
Total liabilities	<u>202,754,143</u>	<u>34,770,543</u>	<u>75,793,538</u>	<u>5,232,272</u>	<u>318,550,496</u>
Fund balances (deficits)					
Committed	-	-	1,028,957,655	161,929,206	1,190,886,861
Assigned	81,720,399	137,660,084	-	-	219,380,483
Unassigned	(78,921,884)	-	-	-	(78,921,884)
Total fund balances	<u>2,798,515</u>	<u>137,660,084</u>	<u>1,028,957,655</u>	<u>161,929,206</u>	<u>1,331,345,460</u>
Total liabilities and fund balances	<u>\$ 205,552,658</u>	<u>\$ 172,430,627</u>	<u>\$ 1,104,751,193</u>	<u>\$ 167,161,478</u>	<u>\$ 1,649,895,956</u>

The accompanying notes are an integral part of these financial statements.

Department of Education

State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2021

Total fund balances – governmental funds \$ 1,331,345,460

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.

Governmental capital assets	\$ 4,298,549,365	
Less: Accumulated depreciation	<u>(2,225,454,910)</u>	2,073,094,455

Some liabilities are not due in the current period and, therefore, are not reported in the governmental funds. Those liabilities include

Accrued compensated absences	(87,203,670)
Workers' compensation claims reserve	(134,646,419)
Notes payable	<u>(34,464,960)</u>
Net position of governmental activities	<u>\$ 3,148,124,866</u>

The accompanying notes are an integral part of these financial statements.

Department of Education

State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2021

	General	Federal	Capital Projects	Other	Total
Revenues					
State allotments, net	\$ 1,841,399,775	\$ -	\$ 312,185,582	\$ -	\$ 2,153,585,357
Nonimposed employee wages and fringe benefits	733,013,251	-	-	-	733,013,251
Intergovernmental revenues	-	382,695,589	-	-	382,695,589
Other revenues	-	-	-	45,331,358	45,331,358
	<u>2,574,413,026</u>	<u>382,695,589</u>	<u>312,185,582</u>	<u>45,331,358</u>	<u>3,314,625,555</u>
Expenditures					
School-related	2,375,155,570	378,627,798	-	36,773,586	2,790,556,954
State and complex area administration	85,245,954	1,031,922	-	68,220	86,346,096
Public libraries	46,909,108	1,357,454	-	1,406,209	49,672,771
Capital outlay	4,192,805	2,101,068	231,165,244	1,875,194	239,334,311
	<u>2,511,503,437</u>	<u>383,118,242</u>	<u>231,165,244</u>	<u>40,123,209</u>	<u>3,165,910,132</u>
Excess (deficiency) of revenues over (under) expenditures	<u>62,909,589</u>	<u>(422,653)</u>	<u>81,020,338</u>	<u>5,208,149</u>	<u>148,715,423</u>
Other financing sources (uses)					
Proceeds from notes payable	-	-	4,288,452	-	4,288,452
Transfers in (out)	-	(112,833)	-	112,833	-
Total other financing sources (uses)	<u>-</u>	<u>(112,833)</u>	<u>4,288,452</u>	<u>112,833</u>	<u>4,288,452</u>
Net change in fund balances	62,909,589	(535,486)	85,308,790	5,320,982	153,003,875
Fund balances (deficits) at July 1, 2020, as originally stated	(60,111,074)	138,195,570	943,648,865	126,944,097	1,148,677,458
Fund balances at July 1, 2020, restatement	-	-	-	29,664,127	29,664,127
Fund balances (deficits) at July 1, 2020, as restated	<u>(60,111,074)</u>	<u>138,195,570</u>	<u>943,648,865</u>	<u>156,608,224</u>	<u>1,178,341,585</u>
Fund balances at June 30, 2021	<u>\$ 2,798,515</u>	<u>\$ 137,660,084</u>	<u>\$ 1,028,957,655</u>	<u>\$ 161,929,206</u>	<u>\$ 1,331,345,460</u>

The accompanying notes are an integral part of these financial statements.

Department of Education

State of Hawaii

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities Year Ended June 30, 2021

Net change in fund balances – total governmental funds \$ 153,003,875

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 195,625,169	
Loss on disposal of capital assets	(741,946)	
Less: Current fiscal year depreciation	<u>(107,688,976)</u>	87,194,247

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds

Changes in workers' compensation claims reserve	2,108,777	
Changes in accrued compensated absences	<u>(8,838,811)</u>	(6,730,034)

Proceeds from notes payable provide current financial resources to governmental funds; however, are reported as an increase in liabilities on the statement of position (4,288,456)

Repayment of notes payable is reported as an expenditure in governmental funds; however, is reported as a decrease in liabilities on the statement of net position 2,219,287

Change in net position of governmental activities	<u>\$ 231,398,919</u>
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The accompanying notes are an integral part of these financial statements.

Department of Education**State of Hawaii****Statement of Revenues and Expenditures – Budget and Actual****(Non-GAAP Budgetary Basis) – General Fund****Year Ended June 30, 2021**

	Budgeted Amounts		Actual on Budgetary Basis	Variance Positive (Negative)
	Original	Final		
Revenues				
State allotments	\$ 1,792,847,216	\$ 1,841,750,373	\$ 1,839,658,269	\$ (2,092,104)
Expenditures				
School-related	1,705,439,099	1,738,584,644	1,654,625,925	(83,958,719)
State and complex area administration	52,043,672	68,457,313	65,749,966	(2,707,347)
Public libraries	35,364,445	34,708,416	34,695,842	(12,574)
Expenditures subtotal	1,792,847,216	1,841,750,373	1,755,071,733	(86,678,640)
Excess of revenues over expenditures	\$ -	\$ -	\$ 84,586,536	\$ 84,586,536

The accompanying notes are an integral part of these financial statements.

Department of Education**State of Hawaii****Statement of Revenues and Expenditures – Budget and Actual****(Non-GAAP Budgetary Basis) – Federal Fund****Year Ended June 30, 2021**

	Budgeted Amounts		Actual on Budgetary Basis	Variance Positive (Negative)
	Original	Final		
Revenues				
Federal grants	\$ 561,611,229	\$ 743,961,830	\$ 361,322,264	\$ (382,639,566)
Expenditures				
School-related	555,958,849	733,304,003	372,735,219	(360,568,784)
State and complex area administration	4,020,185	10,457,827	2,113,588	(8,344,239)
Public libraries	1,632,195	200,000	247,861	47,861
Expenditures subtotal	561,611,229	743,961,830	375,096,668	(368,865,162)
Deficiency of revenues over expenditures	\$ -	\$ -	\$ (13,774,404)	\$ (13,774,404)

The accompanying notes are an integral part of these financial statements.

1. Financial Reporting Entity

Introduction

The Department of Education, 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 Hawaii State Public Charter Schools (“HSPCS”) where the DOE prepares entries, based on information provided by the HSPLS and HSPCS, to combine financial data for the three units, in aggregate known as the Department. The fiscal and oversight authority for the DOE, HSPLS and HSPCS are managed independently. The DOE has determined that the HSPCS balances are significant, but not material, and relies on certain financial information which has been audited by other auditors and coordinated by the HSPCS.

The Department is a part of the executive branch of the State of Hawaii (“State”). The financial statements of the Department are intended to present the financial position, the changes in financial position, and the budgetary comparison 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, 2021, and the changes in its financial position and budgetary comparison for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The State Comptroller maintains the central accounts for all state funds and publishes the State’s Annual Comprehensive Financial Report (“ACFR”), which includes the Department’s financial activities.

Reporting Entity

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

2. Summary of Significant Accounting Policies

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

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, it is generally the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are summarized into a single column.

Measurement Focus, Basis of Accounting, and Financial Presentation

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

Expenditures generally are recorded when a liability is incurred as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation and workers' compensation claims, which are recorded as expenditures when utilized or paid. The amount of accumulated vacation and workers' compensation claims reserve are 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.

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 legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the Department that are reported in the accompanying fund financial statements have been classified into the following major and nonmajor governmental funds. A description of the governmental funds is as follows.

Governmental Fund Types – The Department reports the following major 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 of special revenue funds, which account for the proceeds of specific revenue sources that are for specified purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.

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

The nonmajor governmental fund is comprised of the following:

- **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, which accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature.
- **Assigned** – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned** – Residual balances that are not contained in the other classifications.

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, it is generally 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and amounts held in the State Treasury as discussed in Note 4. The State’s investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP.

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Capital Assets

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

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

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

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

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

Asset Type	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	\$100,000	15 years
Buildings and improvements	\$100,000	30 years
Furniture and equipment	\$5,000	7 years
Vehicles	\$5,000	5 years
Public library materials	All	5 years

Compensated Absences

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. There is no liability for unpaid accumulated sick leave since it is not convertible to pay upon termination of employment.

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 and Capital 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.

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.

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; workers' compensation; and acts of terrorism. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss is reasonably estimable.

Use of Estimates

The preparation of financial statements in accordance with U.S. 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.

Recently Issued Accounting Pronouncements

GASB Statement No. 84

During fiscal year 2021, the Department implemented GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Certain assets and liabilities previously reported as part of the agency fund classification of the statement of fiduciary net position are now reported on the governmental funds balance sheet.

The adoption of Statement No. 84 resulted in the restatement of the Department's July 1, 2020 governmental activities and governmental funds to reflect assets and liabilities of nonfiduciary activities from net position and fund balance for governmental activities to governmental funds of approximately \$29.7 million.

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, postponed by GASB Statement No. 95 for 18 months. The Department is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 92

The GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective at multiple periods depending on when certain statements are implemented and were postponed by GASB Statement No. 95 for one year. The Department is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 96

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Department is currently evaluating the impact that this statement will have on its financial statements.

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3. Budgeting and Budgetary Control

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

However, Section 37-41.5 of the Hawaii Revised Statutes allows the Department to carry over 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, 2021, general funds carried over amounted to approximately \$84.7 million, representing approximately 4.7% 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 accordance 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) recognition of certain receivables, and (3) special revenue funds operating grants accruals and deferrals. These differences represent a departure from GAAP.

The following schedule reconciles the budgetary amounts to the amounts presented in accordance with GAAP for the year ended June 30, 2021:

	General	Federal
Excess (deficiency) of revenues over (under)		
expenditures – actual on a budgetary basis	\$ 84,586,536	\$ (13,774,404)
Reserved for encumbrances at fiscal year-end	87,004,811	31,460,905
Expenditures for liquidation of prior fiscal		
year encumbrances	(130,628,755)	(21,390,484)
Net accrued revenues and expenditures	<u>21,946,997</u>	<u>3,281,330</u>
Excess (deficiency) of revenues over (under)		
expenditures – GAAP basis	<u>\$ 62,909,589</u>	<u>\$ (422,653)</u>

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4. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2021 consisted of cash in banks and amounts held in the State Treasury at June 30, 2021:

Cash in banks	\$ 122,228,734
Amounts held in the State Treasury	<u>1,464,154,962</u>
	<u>\$ 1,586,383,696</u>

Amounts Held in the State Treasury

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

At June 30, 2021, amounts held in the State Treasury by the Department are reported at fair value and totaled \$1,464,154,962. The amounts held in the State Treasury reported in the accompanying financial statements reflect the Department's relative position in the State's investment pool based upon the average monthly investment balance of each participant in the investment pool.

Information relating to the cash and investments in the State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the investment pool, investment fair values and maturities by type of security, and the collateralization of the investment pool balances is included in the State's ACFR.

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.

Credit Risk

The State's general 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, banker's acceptances, and money market funds maintaining a Triple-A rating.

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation ("SIPC") up to a maximum amount. 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 collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The State's asset allocation and investment policy allows for active and passive investments in international securities. The foreign currency risk exposure to the State arises from the international equity investment holdings, including commingled funds, common stocks, and exchange traded funds.

Cash in Banks

The Department maintains cash in banks which is held separately from cash in the State Treasury. As of June 30, 2021, the carrying amount of total bank deposits was \$35,307,615 and the corresponding bank balances were approximately \$53,401,900. The HSPCS also held cash outside of the State Treasury totaling \$86,921,119 at June 30, 2021.

All deposits are collateralized in accordance with State statutes. The balances are insured by the Federal Deposit Insurance Corporation 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.

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5. Capital Assets

For the year ended June 30, 2021, capital assets activity for the Department was as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Governmental activities				
Capital assets not being depreciated				
Land	\$ 88,238,609	\$ 1,233,392	\$ -	\$ 89,472,001
Construction in progress	389,760,459	180,940,222	(192,789,151)	377,911,530
Total capital assets not being depreciated	477,999,068	182,173,614	(192,789,151)	467,383,531
Capital assets being depreciated				
Land improvements	341,492,076	7,862,825	-	349,354,901
Buildings and improvements	2,819,642,552	190,254,120	-	3,009,896,672
Furniture and equipment	411,575,720	3,724,700	(22,739,850)	392,560,570
Vehicles	13,990,801	1,589,596	(908,962)	14,671,435
Public library materials	64,786,149	2,750,858	(2,854,751)	64,682,256
Total capital assets being depreciated	3,651,487,298	206,182,099	(26,503,563)	3,831,165,834
Less: Accumulated depreciation for				
Land improvements	(212,331,097)	(17,821,970)	-	(230,153,067)
Buildings and improvements	(1,567,015,185)	(52,067,285)	-	(1,619,082,470)
Furniture and equipment	(297,803,618)	(31,957,621)	22,069,351	(307,691,888)
Vehicles	(11,486,261)	(1,887,381)	896,122	(12,477,520)
Public library materials	(54,949,997)	(3,954,719)	2,854,751	(56,049,965)
Total accumulated depreciation	(2,143,586,158)	(107,688,976)	25,820,224	(2,225,454,910)
Governmental activities, net	\$ 1,985,900,208	\$ 280,666,737	\$ (193,472,490)	\$ 2,073,094,455

Depreciation expense was charged to functions as follows:

	Governmental Activities
School-related	\$ 99,500,764
State and complex area administration	1,700,459
Public libraries	6,487,753
Total additions to accumulated depreciation	\$ 107,688,976

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6. Long-Term Liabilities

The change in long-term liabilities during the year ended June 30, 2021 was as follows:

	Accrued Compensated Absences	Workers' Compensation Claims Reserve	Notes Payable
Balance at July 1, 2020	\$ 78,364,859	\$ 136,755,196	\$ 32,395,791
Additions	34,860,861	17,010,451	4,288,456
Reductions	<u>(26,022,050)</u>	<u>(19,119,228)</u>	<u>(2,219,287)</u>
Balance at June 30, 2021	87,203,670	134,646,419	34,464,960
Less: Current portion	<u>(23,730,888)</u>	<u>(17,504,034)</u>	<u>(2,529,422)</u>
	<u>\$ 63,472,782</u>	<u>\$ 117,142,385</u>	<u>\$ 31,935,538</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 \$150.1 million is reported at present value using a discount rate of 2%.

Following is a summary of the three notes payable with Hawaii Green Infrastructure Authority:

Unsecured interest-free note payable, due in semi-annual installments of \$973,694 through June 30, 2036	\$ 28,911,478
Unsecured note payable, due in semi-annual installments of \$232,642 (principal and interest of 3.5%) through June 30, 2033	5,436,733
Unsecured note payable, due in semi-annual installments of \$240,000 (principal and interest of 3.5%) through December 31, 2021	<u>116,749</u>
	34,464,960
Current maturities	<u>2,529,422</u>
	<u>\$ 31,935,538</u>

Interest payments totaled \$178,236 for the year ended June 30, 2021.

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Principal maturities of the notes payable are as follows:

Years ending June 30	
2022	\$ 2,529,422
2023	2,412,673
2024	2,412,673
2025	2,412,673
2026	2,412,673
2027 – 2031	12,063,361
2032 – 2036	10,221,485
	\$ 34,464,960

7. Food Distribution Program

The U.S. Department of Agriculture (“USDA”), Food and Nutrition Service (“FNS”), has delegated the administrative responsibility of the Food Distribution Program to the Hawaii Child Nutrition Programs office (“HCNP”). 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 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 \$4,107,000 of commodities for the year ended June 30, 2021. No bonus commodities were received for the year ended June 30, 2021.

8. Non-imposed Employee Wages and Fringe Benefits

Payroll fringe benefit costs 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 \$733,013,000 for the year ended June 30, 2021, have been reported as revenues and expenditures in the general fund of the Department.

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9. Lease Commitments

The Department leases equipment from third-party lessors under various operating leases expiring through 2027. Future minimum lease rentals under noncancelable operating leases with terms of one year or more at June 30, 2021 were as follows:

Years ending June 30	
2022	\$ 4,166,000
2023	2,900,000
2024	1,870,000
2025	946,000
2026	239,000
2027	2,000
	\$ 10,123,000

Total rent expense related to the above leases for the year ended June 30, 2021 amounted to approximately \$5,088,000.

10. Retirement Benefits

Pension Plan

Plan Description

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

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation

is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

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

Noncontributory Class

- **Retirement Benefits** – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with thirty years of credited service are eligible to retire at age 55.
- **Disability Benefits** – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- **Death Benefits** – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

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

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Contributory Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.
- Disability and Death Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service are required for ordinary disability.

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

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with thirty years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Hybrid Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with thirty years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

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

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2021 was 24% for general employees. Contributions to the pension plan from the Department were approximately \$367,936,000 for the year ended June 30, 2021.

Pursuant to Act 17, SLH 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for general employees increased to 24.0% on July 1, 2020.

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

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

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

Additional disclosures and required supplementary information pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's ACFR. The State's ACFR can be obtained at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

Postemployment Healthcare and Life Insurance Benefits

Plan Description

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

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

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

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

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF paid by the Department was approximately \$161,756,000 for the year ended June 30, 2021. The employer is required to make all contributions for members.

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

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

Additional disclosures and required supplementary information pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

Deferred Compensation Plan

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

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

11. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first \$1,000,000 per occurrence of property losses such as fires and 3% of a property's replacement cost value for catastrophic losses such as hurricanes, earthquakes and floods, the first \$5,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime and cyber liability. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence of property losses is \$200,000,000, except for terrorism, which is \$100,000,000 per occurrence. The annual aggregate limit for general liability losses is \$9,000,000 per occurrence, \$50,000,000 for cyber liability losses and, for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

Department of Education
State of Hawaii
Notes to Financial Statements
June 30, 2021

The Department administers its workers' compensation losses. A liability for workers' compensation is established if information indicates that a loss has been incurred as of June 30, 2021, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported and loss adjustment expenses. The amount of the estimated loss is recorded in the accompanying statement of net position, as those losses will be liquidated with future expendable resources, and amounted to approximately \$134,646,000 as of June 30, 2021 (see Note 6).

The following table represents changes in the amount of the estimated losses and the loss adjustment costs as of June 30, 2021 and 2020:

	2021	2020
Unpaid losses and loss adjustment costs		
Beginning of the fiscal year	\$ 136,755,196	\$ 147,276,436
Incurring losses and loss adjustment costs		
Provision of insured events of current fiscal year	18,382,000	18,871,000
Change in provision for insured events of prior fiscal years	(1,371,549)	(9,813,046)
Total incurred losses and loss adjustment costs	<u>17,010,451</u>	<u>9,057,954</u>
Payments		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(1,474,626)	(1,561,337)
Losses and loss adjustment costs attributable to insured events of prior fiscal year	(17,644,602)	(18,017,857)
Total payments	<u>(19,119,228)</u>	<u>(19,579,194)</u>
Balance at end of year	<u>\$ 134,646,419</u>	<u>\$ 136,755,196</u>

12. Commitments and Contingencies

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, 2021 were as follows:

General Fund	\$ 98,496,012
Federal Fund	37,321,426
Capital Projects Fund	694,509,132
Other Fund	4,379,001
	<u>\$ 834,705,571</u>

Litigation

The Department has been named as defendant in a number of lawsuits and claims arising in the normal course of operations. 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 ongoing 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.

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. Accumulated sick leave as of June 30, 2021, was approximately \$781,718,695.

13. Subsequent Events

The Department has reviewed all events that have occurred from July 1, 2021, through March 31, 2022, the date that the financial statements were available for issuance, for proper accounting and disclosure in the financial statements.

Supplementary Information

Department of Education
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Identifier	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Child Nutrition Cluster				
National School Lunch Program	10.555			
Cash assistance			\$ 2,998,863	\$ 23,998,201
COVID-19 cash assistance			3,302,280	8,136,138
Cash assistance (commodities)			-	4,078,655
Subtotal – National School Lunch Program			6,301,143	36,212,994
Summer Food Service Program for Children				
State administrative expense	10.559		-	49,545
Total – Child Nutrition Cluster			6,301,143	36,262,539
CACFP Meal Service Training	10.534		-	7,540
Child and Adult Care Food Program	10.558		504,005	608,387
State Administrative Expense for Child Nutrition	10.560		-	1,087,133
Child Nutrition Discretionary Grants Limited Availability	10.579		96,582	101,744
Fresh Fruit and Vegetable Program	10.582		44,514	125,995
Total – U.S. Department of Agriculture			6,946,244	38,193,338
U.S. Department of Defense				
Competitive Grants Promoting K-12 Student Achievement at Military-Connected Schools	12.556			
Reading Radford Complex			-	2,319
Visible Learning			-	232,384
Stem Leilehua Complex			-	564,555
MCASP Kailua Inter FY18			-	47,899
CA Campbell-Kapolei Ala Hele FY19			-	83,035
Total – Competitive Grants Promoting K-12 Student Achievement at Military-Connected Schools			-	930,192
Department of Defense Impact Aid	12.558		-	1,954,166
Community Investment	12.600		-	1,657,832
Troops to Teachers Grant Program	12.620		-	89,879
Total – U.S. Department of Defense			-	4,632,069
U.S. Department of Interior				
Economic, Social, and Political Development of the Territories	15.875		-	245,533
Total – U.S. Department of Interior			-	245,533
U.S. Department of Treasury				
COVID-19 – Coronavirus Relief Fund	COVID-19 – 21.019		-	47,100,000
Total – U.S. Department of Treasury			-	47,100,000
Institute of Museum and Library Services				
Grants to States	45.310		-	1,357,455
Total – Institute of Museum and Library Services			-	1,357,455
U.S. Department of Education				
Adult Education – Basic Grants to States	84.002A		-	2,051,914
Title I – Grants to Local Educational Agencies	84.010A		-	52,195,745
Migrant Education – State Grant Program	84.011A		-	1,238,991
Title I – State Agency Program for Neglected and Delinquent Children and Youth	84.013A		-	103,302
Special Education Cluster (IDEA)				
Special Education – Grants to States (IDEA Part B)	84.027A		-	32,583,636
Special Education – Preschool Grants (IDEA Preschool)	84.173A		-	727,398
Total – Special Education Cluster			-	33,311,034

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

Department of Education
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Identifier	Passed Through to Subrecipients	Total Federal Expenditures
Impact Aid	84.041		-	60,823,987
Migrant Education Coordination Program	84.144F		-	120,077
Safe and Drug-free Schools and Communities National Programs	84.184F		-	358,605
Education for Homeless Children and Youth	84.196A		-	251,227
Twenty-first Century Community Learning Centers	84.287C		2,246,777	5,185,651
Native Hawaiian Education	84.362A		-	244,791
English Language Acquisition State Grants	84.365A		-	2,340,585
Asian American and Pacific Islander Data Disaggregation Initiative	84.365D		-	84,017
Supporting Effective Instruction State Grant	84.367A		-	7,450,801
Grants for State Assessments and Related Activities	84.369A		-	4,226,532
Striving Readers Comprehensive Literacy ("SRCL") Program	84.371C		358,342	5,556,194
Statewide Longitudinal Data Systems	84.372A		-	826,288
School Improvement Grants	84.377A		-	269,464
Student Support and Academic Enrichment Program	84.424A		-	2,821,248
Trauma Recovery Demonstration Grant Program	84.424C		-	9,531
COVID-19 Education Stabilization Fund	COVID-19 – 84.425D		-	94,208,668
COVID-19 Education Stabilization Fund	COVID-19 – 84.425R		-	34,224
Common Core of Data Survey Project	84.ED-08-CO-0029		-	555
NAEP State Coordinator	84.ED-08-CO-0029		-	161,977
Passed through Office of the State Director for Career and Technical Education				
Career and Technical Education – Basic Grants to States	84.048A	V048A18-V048A20	-	2,942,898
Passed through State Department of Human Services Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126A	H126A120015-210015	-	49,275
Passed through Alu Like, Inc. Native Hawaiian Career and Technical Education	84.259A	VE-CAS1819-07	-	294,489
Passed through University of Hawaii Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	P334S180010	-	579,251
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	P334A170131	-	18,502
Native Hawaiian Education	84.362A	S362A17, S362A20	-	186,976
Total – Passed through University of Hawaii			-	784,729
Passed-through Ho'okoko'o Corporation Native Hawaiian Education	84.362A	S362A15	-	207,200
Total – U.S. Department of Education			2,605,119	278,153,999
U.S. Department of Health and Human Services				
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		-	776,706
Passed through State Department of Human Services Every Student Succeeds Act/Preschool Development Temporary Assistance for Needy Families	93.434 93.558	90TP0043-01-00 DHS-19-ETPO-0037	- -	93,158 2,819,220
Total – Passed through State Department of Human Services			-	2,912,378
Head Start	93.600		-	131,576
Cooperative Agreements to support Comprehensive School Health Programs to Prevent the Spread of HIV and other Important Health Problems	93.938		-	104,876
Total – U.S. Department of Health and Human Services			-	3,925,536
Total expenditures of federal awards			\$ 9,551,363	\$ 373,607,930

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

Department of Education
State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") for the year ended June 30, 2021 includes the federal award activity of the Department of Education ("DOE"), the Hawaii State Public Library System ("HSPLS"), and certain Hawaii State Public Charter Schools ("HSPCS") where the DOE prepares the Schedule, based on information provided by HSPLS and HSPCS, to combine federal financial data for the three departments, in aggregate known as the Department.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Department.

The following is a summary of the HSPCS entities that obtained separate audits performed in accordance with the Uniform Guidance, including separate Uniform Guidance submissions to the Federal Audit Clearinghouse:

- State Public Charter School Commission
- Kamaile Academy
- Ke Kula 'O Nawahiokalani'opu'u Iki LPCS
- Kualapu'u School
- Hawai'i Academy of Arts and Science Public Charter School
- Hawai'i Technology Academy
- The Volcano School of Arts & Sciences Public Charter School

Awards listed in these separately issued Uniform Guidance submissions, with federal expenditures aggregating to \$7,659,045 for the year ended June 30, 2021, are not included in the accompanying Schedule.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Department has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

See accompanying independent auditors' report.

PART II
Compliance and Internal Control



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

The Auditor
State of Hawaii

Board of Education
Department of Education
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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, State of Hawaii (the "Department") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 31, 2022.

Internal Control Over Financial Reporting

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

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



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2021-001.

Department's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
March 31, 2022



**Report of Independent Auditors on Compliance
for Each Major Federal Program and on Internal Control
Over Compliance Required by the Uniform Guidance**

The Auditor
State of Hawaii

Board of Education
Department of Education
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii, Department of Education's ("the Department") compliance with the types of compliance requirements described in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on the Department's major federal program for the year ended June 30, 2021. The Department's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Department'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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompany schedule of findings and questioned costs as Finding No. 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the Department 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 Department'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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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



Our consideration of internal control 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
March 31, 2022

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued

Unmodified

Internal control over financial reporting

- Material weaknesses identified?
- Significant deficiencies identified?

☐ yes	☒ no
☐ yes	☒ none reported
☒ yes	☐ no

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major programs

- Material weaknesses identified?
- Significant deficiencies identified?

☐ yes	☒ no
☐ yes	☒ none reported

Type of auditors’ report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

☒ yes	☐ no
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Identification of major federal programs:

Name of Federal Program or Cluster

Federal Assistance Listing Number

U.S. Department of Defense – Community Investment

12.600

U.S. Department of Treasury – COVID-19 –
Coronavirus Relief Fund

COVID-19 – 21.019

U.S. Department of Education – Title I Grants
to Local Educational Agencies

84.010

U.S. Department of Education – COVID-19 –
Education Stabilization Fund

COVID-19 – 84.425

U.S. Department of Education – Striving Readers
Comprehensive Literacy Program

84.371

U.S. Department of Health and Human Services –
Temporary Assistance for Needy Families

93.558

Dollar threshold used to distinguish between
Type A and Type B program

\$3,000,000

Auditee qualified as low-risk auditee?

☒ yes	☐ no
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**Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021**

Section II – Financial Statement Findings

Finding No. 2021-001: Accounting for Capital Assets – Control Deficiency

Condition

During our audit, we noted that for 2 out of 13 capital projects selected for testing, the projects were completed prior to the start of fiscal 2021, however the projects remained erroneously classified as being in progress in the Department’s capital asset records as of June 30, 2021.

Criteria

Pursuant to the Department’s policies and procedures, the Office of Facilities and Operation is responsible for notifying the Office of Fiscal Services when a capital project has been completed and should be transferred from construction in progress to the appropriate capital asset category for financial reporting purposes.

Cause

The erroneous classification of projects as being in progress in the Department’s capital asset records as of June 30, 2021 may be attributed to untimely communication from the Office of Facilities and Operation to the Office of Fiscal Services regarding the completion of the projects.

Effect

Failure to transfer completed capital projects from construction in progress to the appropriate fixed asset categories in a timely manner necessitated the proposition of adjusting and reclassifying audit entries to properly state the Department’s capital assets, accumulated depreciation, and School-related expenditure balances.

Repeat Finding

This is a repeat of prior audit Finding No. 2020-001.

Recommendation

We recommend that the Office of Facilities and Operation ensure that communication regarding the completion of capital projects is made to the Office of Fiscal Services in a timely manner.

Cause and View of Responsible Officials

The deficiency is a result of the Office of Facilities and Operation’s failure to report project completions to the Office of Fiscal Services, which most likely was caused by an inefficient interdepartmental routing process of project acceptance notices. The Department is in the process of implementing various corrective actions to ensure the consistent, accurate and timely transfer of projects from construction in progress to the appropriate fixed asset category.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section III – Federal Award Findings and Questioned Costs

**Questioned
Costs**

\$ –

Finding No. 2021-002: **Federal Funding Accountability and Transparency Act
Reporting – Control Deficiency**

Federal Agency: Department of Education

**Assistance Listing
Number and Title:** 84.371C – Comprehensive Literacy State Development Program

Condition

During our audit, we noted an instance in which the Department did not complete the reporting required by Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of the Federal Funding Accountability and Transparency Act (“FFATA”) for a subgrant made during 2021.

Criteria

Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of the FFATA requires an entity to report subcontracts made under federally-awarded contracts by the end of the month following the month in which the prime recipient awards any subgrant greater than or equal to \$30,000.

Cause

The lack of FFATA reporting may be attributed to general oversight by program personnel.

Effect

Failure to file required reports reduces transparency on the use of program funds and represents an instance of noncompliance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200.

Context

A sample of one subgrant greater than or equal to \$30,000 totaling \$358,342 was selected for audit from a population of \$358,342 in subgrants from the Comprehensive Literacy State Development Program. Our test found one instance in which a FFATA report was not completed in a timely manner. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that program personnel ensure that required FFATA reports are completed in a timely manner.

Department of Education
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Cause and View of Responsible Officials

Program management was unaware of reporting requirement. The Office of Curriculum and Instructional Design, Comprehensive Literacy State Development grant section will submit required reports by applicable deadlines, and will continue to do so annually until the end of the grant period.



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

OFFICE OF THE SUPERINTENDENT

March 31, 2022

Accuity LLP
First Hawaiian Center
999 Bishop Street, Suite 1900
Honolulu, HI 96813

Ladies and Gentlemen:

The Single Audit of the Hawaii State Department of Education (Department) for the fiscal year ended June 30, 2021 was completed before the March 31, 2022 Federal deadline. We are pleased that the Department received an unmodified opinion on its financial statements.

We have reviewed your audit findings and recommendations and corrective action plans have been prepared. In accordance with 2 CFR 200.508, the following pages contain the **Corrective Action Plan** for the year ended June 30, 2021 and the **Summary Schedule of Prior Audit Findings** for the year ended June 30, 2020.

Sincerely,

A handwritten signature in blue ink, appearing to read "Keith T. Hayashi".

Keith T. Hayashi
Interim Superintendent

KTH:dy
Attachments

c: Internal Audit Office

Department of Education
State of Hawaii
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

Finding	Description	Type	Status		Current Year Finding
			Resolved	Unresolved	
2020-001	Accounting for Capital Assets	Significant Deficiency ("SD")		X	2021-001
2020-002	Procurement and Suspension and Debarment – Department of Defense, Department of Defense Impact Aid (CFDA No. 12.558)	SD	X		
2020-003	Procurement and Suspension and Debarment – U.S. Department of Education, Career and Technical Education – Basic Grants to States (CFDA No. 84.048)	SD	X		
2020-004	Procurement and Suspension and Debarment – U.S. Department of Education, Twenty-First Century Community Learning Centers (CFDA No. 84.287)	SD	X		

Corrective Action Plan

HAWAII STATE DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2021

FINANCIAL STATEMENT FINDING

2021-001 Accounting for Capital Assets – Control Deficiency (Page 48)

View of Responsible Officials

Management agrees with the finding.

Corrective Action Plan

A proposed Office of Facilities and Operations (OFO) reorganization transferred the Facilities Development Branch (FDB) accounting duties to the Auxiliary Services Branch (ASB), where a new fiscal section will be responsible for tracking fixed assets. The OFO reorganization has not been approved yet; however, FDB and ASB staff (aka Construction in Progress (CIP) Fiscal Section) continue to be responsible for ensuring that the identification, classification, and reporting of capitalized assets are consistent each year.

The project acceptance date, which is the calendar day on which the engineer accepts the project as sufficiently completed in compliance with the contract so that the State can occupy or utilize the work for its intended use, continues to be the best measure of when an asset is substantially ready to be placed into service, and thus be transferred to the appropriate capital asset category for financial reporting purposes.

The audit finding appears to be a result of the CIP Fiscal Section's failure to report project completions to DOE Accounting, which most likely was caused by an inefficient interdepartmental routing process of project acceptance notices.

The corrective actions listed below will ensure consistent, accurate, and timely transfer of CIP projects to fixed assets:

- 1. Facilities Director of the Facilities Development Branch will assign a specific person in the Construction Management Section to route the project acceptance notices (issued to construction vendors) to the CIP Fiscal Section (specifically, the General Professional) to ensure the timely routing of necessary documents. The assigned person will also track active (CIP) jobs to ensure the timely issuance of project acceptance notices to construction vendors.*

HAWAII STATE DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2021

2021-001 Accounting for Capital Assets – Control Deficiency (Continued)

2. *While the FYE 2021 audit did not report any findings pertaining to multiple phased and large-scale projects such as new school campuses, the CIP Fiscal section will continue to review all active jobs to identify such CIP projects to ensure accurate reporting.*
3. *Last year's initiative to collaborate with DataHouse, an information technology services consultant, to establish a system within the OFO's Capital Improvement Project Tracking (CPT) database to track completed projects and create FYE reports was put on hold in July due to the launch of the new Aukahi financial management system (AFMS). Now that Datahouse can again link AFMS data to OFO's CPT system, we will continue our collaboration to create a tracking and reporting system.*

*Contact Person: Riki Fujitani, Auxiliary Services Director
 Auxiliary Services Branch
 Office of Facilities and Operations*

Anticipated Completion Date: June 30, 2023

HAWAII STATE DEPARTMENT OF EDUCATION
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2021

FEDERAL AWARD FINDING AND QUESTIONED COSTS

2021-002 Federal Funding Accountability and Transparency Act Reporting – Control Deficiency (Page 49)

View of Responsible Officials

Management agrees with the findings and recommendation.

Corrective Action Plan

The Office of Curriculum and Instructional Design (OCID), Comprehensive Literacy State Development (CLSD) grant section will submit the Federal Funding Accountability and Transparency Act report by September 1, 2022, and will continue to do so annually until the end of the CLSD grant.

*Contact Person: Petra Schatz, CLSD Grant Coordinator
Office of Curriculum and Instructional Design*

Anticipated Completion Date: September 1, 2022