



# Department of Education State of Hawaii

Financial and Compliance Audit

June 30, 2025

Submitted by  
The Auditor  
State of Hawaii



**Department of Education**  
**State of Hawaii**  
**Index**  
**June 30, 2025**

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**PART I**  
**Financial Statements**



## Independent Auditors' Report

The Auditor  
State of Hawaii

Board of Education  
Department of Education  
State of Hawaii

### Opinions

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, 2025, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the index.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2025, 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.

We did not audit the financial statements of the public charter schools, which represent 8%, 7%, and 5%, respectively, of the total assets, total fund balance, and total revenues of the Department's governmental funds as of June 30, 2025, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for certain public charter schools, is based solely on the reports of the other auditors.

### Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Emphasis of Matters

As discussed in Note 2 to the financial statements, the Department adopted Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, as of July 1, 2024. Our opinions are not modified with respect to this matter.

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 each major 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 of June 30, 2025, 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 opinions are not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

**Supplementary 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 of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 19, 2026 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.

The logo for Accuity LLP, featuring the word "Accuity" in a stylized, handwritten-style font followed by "LLP" in a simpler, bold font.

Honolulu, Hawaii  
March 19, 2026

\*Accuity\* is the brand name under which Accuity LLP and Accuity Advisors, LLC provide professional services. Accuity LLP and Accuity Advisors, LLC practice as an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable laws, regulations, and professional standards. Accuity LLP is a licensed independent CPA firm that provides attest services to its clients, and Accuity Advisors, LLC provides tax and business consulting services to their clients. Accuity Advisors, LLC, is not a licensed CPA firm.



**Department of Education**  
**State of Hawaii**  
**Management’s Discussion and Analysis (Unaudited)**  
**June 30, 2025**

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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, 2025. 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 the 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 have been audited by other auditors and coordinated by the HSPCS.

**Financial Highlights**

During fiscal year 2025, the Department implemented Governmental Accounting Standards Board (“GASB”) Statement No. 101, *Compensated Absences*. This Statement updated the recognition and measurement guidance for compensated absences. This Statement requires recognition of a liability for compensated absences that is attributed to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid or settled.

As a result of the adoption of GASB Statement No. 101, the beginning net position decreased by \$334.7 million.

Key government-wide financial highlights for the year ended June 30, 2025 (“FY 2025”) compared to the prior year ended June 30, 2024 (“FY 2024”) are as follows:

- Total FY 2025 revenues were \$4.762 billion, an increase of 15% or \$628 million from \$4.134 billion in FY 2024.
- Total FY 2025 expenses were \$4.260 billion, a decrease of 1% or \$57 million from \$4.317 billion in FY 2024.
- Of the total FY 2025 expenses of \$4.260 billion, 94% or \$3.999 billion was spent for school-related activities. Of the total FY 2024 expenses of \$4.317 billion, 94% or \$4.059 billion was spent for school-related activities.
- Total assets exceeded liabilities as of June 30, 2025 by \$4.127 billion (net position), compared to \$3.960 billion as of June 30, 2024, an increase of 4% or \$167 million.
- Net investment in capital assets comprised 65% and 64% of the total net position as of June 30, 2025 and 2024, respectively.

**Department of Education**  
**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2025**

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**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 major funds in the fund financial statements: (1) General Fund, (2) Federal Fund, (3) Capital Projects Fund, and (4) Other Fund.

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

- *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, 2025**

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**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, 2025 and 2024**  
*(Amounts in millions)*

	<b>Governmental Activities</b>		<b>2025-2024</b>	
	<b>2025</b>	<b>2024</b>	<b>Increase (Decrease)</b>	<b>Percentage Change</b>
<b>Assets</b>				
Current	\$ 2,442	\$ 2,184	\$ 258	12 %
Capital assets, net	2,804	2,645	159	6 %
Total assets	<u>\$ 5,246</u>	<u>\$ 4,829</u>	<u>\$ 417</u>	9 %
<b>Liabilities</b>				
Current	\$ 576	\$ 619	\$ (43)	(7)%
Noncurrent	543	250	293	117 %
Total liabilities	<u>1,119</u>	<u>869</u>	<u>250</u>	29 %
<b>Net position</b>				
Net investment in capital assets	2,689	2,524	165	7 %
Restricted	-	23	(23)	(100)%
Unrestricted	1,438	1,413	25	2 %
Total net position	<u>4,127</u>	<u>3,960</u>	<u>167</u>	4 %
Total liabilities and net position	<u>\$ 5,246</u>	<u>\$ 4,829</u>	<u>\$ 417</u>	9 %

**Overall Financial Position** – The Department’s overall net position has increased as of June 30, 2025, 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. Total government-wide net position increased by \$167 million, or 4%, primarily due to an increase in net investment in capital assets of \$165 million, a decrease in restricted net position of \$23 million, and an increase in unrestricted net position of \$25 million.

**Department of Education**  
**State of Hawaii**  
**Management’s Discussion and Analysis (Unaudited)**  
**June 30, 2025**

**Summary Schedule of Changes in Net Position**  
**Years Ended June 30, 2025 and 2024**  
*(Amounts in millions)*

	<b>Governmental Activities</b>		<b>2025-2024</b>	
	<b>2025</b>	<b>2024</b>	<b>Increase (Decrease)</b>	<b>Percentage Change</b>
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 109	\$ 94	\$ 15	16 %
Operating grants and contributions	448	603	(155)	(26)%
General revenues				
State-allotted appropriations, net of lapses	3,134	2,459	675	27 %
Non-imposed employee wages and fringe benefits	1,067	974	93	10 %
Unrestricted investment earnings	4	4	-	0 %
Total revenues	<u>4,762</u>	<u>4,134</u>	<u>628</u>	15 %
<b>Expenses</b>				
School-related	3,999	4,059	(60)	(1)%
State and complex area administration	104	99	5	5 %
Public libraries	76	63	13	21 %
Capital outlay	81	96	(15)	(16)%
Total expenses	<u>4,260</u>	<u>4,317</u>	<u>(57)</u>	(1)%
Change in net position	<u>\$ 502</u>	<u>\$ (183)</u>	<u>\$ 685</u>	(374)%

**Overall Results of Operations** – The Department’s results of operations for FY 2025 have resulted in an increase in net position of \$502 million. This is higher than the decrease in net position of \$183 million for FY 2024. Total FY 2025 revenues were \$4.762 billion, an increase of 15% or \$628 million from \$4.134 billion in FY 2024.

**Governmental Fund Financial Analysis**

Within the governmental fund financial statements, the overall net increase in fund balance for FY 2025 was \$362 million, and the total overall fund balance for the governmental funds as of June 30, 2025 was \$1.993 billion.

**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, 2025 amounted to \$2.804 billion (net of accumulated depreciation and amortization of \$2.805 billion), an increase of \$159 million, compared to capital assets as of June 30, 2024, which amounted to \$2.645 billion (net of accumulated depreciation and amortization of \$2.657 billion). Depreciation and amortization expense for FY 2025 amounted to \$163 million.

Additional information on the Department’s capital assets and construction contract commitments can be found in Note 4 and Note 10 to the financial statements.

**Department of Education**  
**State of Hawaii**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2025**

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**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, 2037. 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, 2025 is approximately \$22.5 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, 2038. 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, 2025 is approximately \$4.7 million.

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, 2030. 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, 2025 is approximately \$441,000.

Additional information on the Department's long-term debt can be found in Note 5 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](http://www.hawaiipublicschools.org).

**Department of Education**  
**State of Hawaii**  
**Statement of Net Position – Governmental Activities**  
**June 30, 2025**

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**Assets**

Current assets	
Cash and cash equivalents	\$2,345,016,867
Receivables	
Due from federal government	66,453,391
Accounts receivable	27,363,024
Due from other agencies	3,651,833
Total current assets	<u>2,442,485,115</u>
Capital assets, net of accumulated depreciation and amortization	<u>2,803,535,025</u>
Total assets	<u><u>\$5,246,020,140</u></u>

**Liabilities and Net Position**

Liabilities	
Current liabilities	
Vouchers and contracts payable	\$ 213,646,713
Accrued wages and employee benefits	196,733,920
Accrued compensated absences	121,888,574
Workers' compensation claims reserve, current portion	24,538,755
Notes payable, current portion	2,299,966
Lease liability, current portion	7,054,082
Subscription liability, current portion	4,067,297
Due to State of Hawaii general fund	5,000,000
Other liabilities	324,213
Total current liabilities	<u>575,553,520</u>
Accrued compensated absences, less current portion	350,161,031
Workers' compensation claims reserve, less current portion	139,052,947
Notes payable, less current portion	25,344,867
Lease liability, less current portion	20,293,430
Subscription liability, less current portion	8,151,408
Total liabilities	<u>1,118,557,203</u>
Net position	
Net investment in capital assets	2,689,957,374
Unrestricted	1,437,505,563
Total net position	<u>4,127,462,937</u>
Total liabilities and net position	<u><u>\$5,246,020,140</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, 2025**

	Expenses	Program Revenues			Net Revenue (Expenses) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities</b>					
School-related	\$3,998,557,521	\$ 107,539,682	\$ 445,099,350	\$ -	\$(3,445,918,489)
State and complex area administration	104,354,120	-	1,245,257	-	(103,108,863)
Public libraries	75,916,386	1,015,367	1,972,425	-	(72,928,594)
Capital outlay	81,080,653	-	-	-	(81,080,653)
Total governmental activities	<u>\$4,259,908,680</u>	<u>\$ 108,555,049</u>	<u>\$ 448,317,032</u>	<u>\$ -</u>	<u>(3,703,036,599)</u>
<b>General revenues</b>					
State-allocated appropriations, net of lapses					3,134,033,692
Non-imposed employee wages and fringe benefits					1,066,516,188
Unrestricted investment earnings					4,354,819
Total general revenues					<u>4,204,904,699</u>
Change in net position					<u>501,868,100</u>
Beginning of year, as previously reported					3,960,310,708
Adjustment for change in accounting principle					(334,715,871)
Beginning of year, as restated					<u>3,625,594,837</u>
End of year					<u>\$ 4,127,462,937</u>

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

**Department of Education  
State of Hawaii  
Balance Sheet – Governmental Funds  
June 30, 2025**

	General	Federal	Capital Projects	Other	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 484,262,978	\$ 158,159,069	\$ 1,402,799,015	\$ 299,795,805	\$ 2,345,016,867
Receivables					
Due from federal government	-	66,453,391	-	-	66,453,391
Accounts receivable	-	-	-	27,363,024	27,363,024
Due from other agencies	-	-	-	3,651,833	3,651,833
Total assets	<u>\$ 484,262,978</u>	<u>\$ 224,612,460</u>	<u>\$ 1,402,799,015</u>	<u>\$ 330,810,662</u>	<u>\$ 2,442,485,115</u>
<b>Liabilities</b>					
Liabilities					
Vouchers and contracts payable	\$ 92,156,624	\$ 39,842,994	\$ 74,824,700	\$ 6,822,395	\$ 213,646,713
Accrued wages and employee benefits	184,350,928	11,561,880	-	821,112	196,733,920
Due to the State of Hawaii general fund	5,000,000	-	-	-	5,000,000
Total liabilities	<u>281,507,552</u>	<u>51,404,874</u>	<u>74,824,700</u>	<u>7,643,507</u>	<u>415,380,633</u>
<b>Deferred inflows of resources</b>					
Deferred inflows on unavailable resources	-	34,048,553	-	-	34,048,553
<b>Fund balances</b>					
Committed	-	-	1,327,974,315	323,167,155	1,651,141,470
Assigned	321,684,754	139,159,033	-	-	460,843,787
Unassigned	(118,929,328)	-	-	-	(118,929,328)
Total fund balances	<u>202,755,426</u>	<u>139,159,033</u>	<u>1,327,974,315</u>	<u>323,167,155</u>	<u>1,993,055,929</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 484,262,978</u>	<u>\$ 224,612,460</u>	<u>\$ 1,402,799,015</u>	<u>\$ 330,810,662</u>	<u>\$ 2,442,485,115</u>

# Department of Education

## State of Hawaii

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2025

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<b>Total fund balances – governmental funds</b>		\$1,993,055,929
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Capital assets	\$5,608,634,591	
Less: Accumulated depreciation and amortization	<u>(2,805,099,566)</u>	2,803,535,025
Some liabilities are not due in the current period and, therefore, are not reported in the governmental funds. Those liabilities include		
Accrued compensated absences		(472,049,605)
Workers' compensation claims reserve		(163,591,702)
Notes payable		(27,644,833)
Lease payable		(27,347,512)
Subscription payable		(12,218,705)
Other liabilities		(324,213)
Unavailable revenues reported as deferred inflows of resources in the governmental funds		<u>34,048,553</u>
Net position of governmental activities		<u>\$4,127,462,937</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, 2025**

	General	Federal	Capital Projects	Other	Total
<b>Revenues</b>					
State allotments, net	\$2,576,141,247	\$ -	\$ 557,892,445	\$ -	\$ 3,134,033,692
Non-imposed employee wages and fringe benefits	1,066,516,188	-	-	-	1,066,516,188
Intergovernmental revenues	6,194,698	389,329,370	-	-	395,524,068
Other revenues	-	-	-	131,654,280	131,654,280
	<u>3,648,852,133</u>	<u>389,329,370</u>	<u>557,892,445</u>	<u>131,654,280</u>	<u>4,727,728,228</u>
<b>Expenditures</b>					
School-related	3,312,678,087	408,798,227	-	112,586,459	3,834,062,773
State and complex area administration	95,501,520	1,799,549	-	358,033	97,659,102
Public libraries	64,751,743	1,734,045	-	5,908,252	72,394,040
Capital outlay	76,063,059	34,276,125	243,255,468	18,308,696	371,903,348
	<u>3,548,994,409</u>	<u>446,607,946</u>	<u>243,255,468</u>	<u>137,161,440</u>	<u>4,376,019,263</u>
Excess of revenues over expenditures (expenditures over revenues)	<u>99,857,724</u>	<u>(57,278,576)</u>	<u>314,636,977</u>	<u>(5,507,160)</u>	<u>351,708,965</u>
<b>Other financing sources (uses)</b>					
Proceeds from notes payable	-	-	71,019	-	71,019
Lease financing	4,812,409	-	-	-	4,812,409
Subscription financing	5,436,913	-	-	-	5,436,913
Transfers in (out)	-	(2,321,204)	(2,391,850)	4,713,054	-
Total other financing sources (uses), net	<u>10,249,322</u>	<u>(2,321,204)</u>	<u>(2,320,831)</u>	<u>4,713,054</u>	<u>10,320,341</u>
Net change in fund balances	110,107,046	(59,599,780)	312,316,146	(794,106)	362,029,306
Fund balances at July 1, 2024	92,648,380	198,758,813	1,015,658,169	323,961,261	1,631,026,623
Fund balances at June 30, 2025	<u>\$ 202,755,426</u>	<u>\$ 139,159,033</u>	<u>\$ 1,327,974,315</u>	<u>\$ 323,167,155</u>	<u>\$ 1,993,055,929</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, 2025

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<b>Net change in fund balances – total governmental funds</b>		\$ 362,029,306
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 or amortization expense.		
Capital asset additions	\$ 329,199,754	
Capital asset disposals	(22,783,971)	
Accumulated depreciation on disposals	15,126,326	
Depreciation and amortization expense	<u>(163,225,920)</u>	158,316,189
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 accrued compensated absences	\$ (46,436,386)	
Changes in workers' compensation claims reserve	(12,008,694)	
Changes in lease payable	3,443,177	
Changes in subscription payable	328,222	
Changes in other liabilities	<u>(69,347)</u>	(54,743,028)
Proceeds from notes payable provide current financial resources to governmental funds; however, are reported as an increase in liabilities on the statement of net position.		(71,019)
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.		2,288,099
Because some revenues will not be collected for several months after the Department's fiscal year, they are not considered available revenues and are deferred in the governmental funds.		<u>34,048,553</u>
Change in net position of governmental activities		<u>\$ 501,868,100</u>

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

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**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 (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 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 have 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, 2025, 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

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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. There are no nonmajor funds reported in the fund financial statements.

**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

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its assets, liabilities, fund balances, revenues and expenditures. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the Department that are reported in the accompanying Fund financial statements have been classified into the following major 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 by special revenue funds, which account for the proceeds of specific revenue sources that are for specified purposes. In this case, the expenditures are for activities authorized by the federal agency grantor.
- **Capital Projects Fund** – The Capital Projects Fund includes all amounts related to the Department’s capital improvement program. It is used to account for financial resources used for the acquisition or construction of major capital facilities.
- **Other Fund** – The Other Fund is used to account for all financial activities not required to be accounted for in another fund. It includes special revenue, which account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

***Fund Balance***

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

The Department classifies fund balances based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *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.

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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 3. The State’s investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP.

**Capital Assets**

Capital assets include land, land improvements, buildings, building improvements, vehicles, right-to-use lease assets, subscription assets, 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:

<b>Asset Type</b>	<b>Minimum Capitalization Amount</b>	<b>Estimated Useful Life</b>
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

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**Leases**

***Lessee***

The Department recognizes lease liabilities and right-to-use lease asset (“lease asset”) in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$100,000 or more for land and building leases and \$25,000 or more for equipment and others, with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Department determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Department uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Department is reasonably certain to exercise.

The Department monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right to use along with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

**Subscription-Based Information Technology Arrangement**

The Department recognizes subscription liabilities and right-to-use subscription asset (“subscription asset”) in the government-wide financial statements. The Department recognizes subscription liabilities with an initial, individual value of \$500,000 or more with a subscription term greater than one year. Variable payments based on future performance of the Department, usage of the underlying IT asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

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At the commencement of a subscription-based information technology arrangement (“SBITA”), the Department initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, plus any payments made to the SBITA vendor before the commencement of the subscription term and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Costs associated with a SBITA, other than the subscription payments, are accounted for as follows:

- **Preliminary project stage** – Outlays are expensed as incurred.
- **Initial implementation stage** – Outlays are capitalized as an addition to the subscription asset.
- **Operation and additional implementation stage** – Outlays are expensed as incurred unless they meet specific capitalization criteria.

Upon adoption, the Department elected to exclude the capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of this Statement in the measurement of subscription assets as of July 1, 2022.

Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position.

Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

Key estimates and judgments related to SBITAs include how the Department determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The Department uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Department generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.
- The subscription term includes the noncancellable period of the SBITAs. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Department is reasonably certain to exercise.
- The Department monitors changes in circumstances that would require a remeasurement of its subscription liability.

**Compensated Absences**

It is the Department's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick leave benefits, as well as participate in the leave donation pool and the direct sharing programs (collectively, "compensated absences"). A liability is recognized only for leave that is (a) attributable to services already rendered, (b) accumulates, and (c) is more likely than not to be used, paid, or settled. The liability for vacation and compensatory time leave is measured using the pay or salary rates in effect at the financial statement date, including shortage differentials. The measurement also includes fringe benefits associated with payments made for vacation leave. The liability for sick leave that is more likely than not to be used, paid, or settled through cash or noncash means is measured using the historical average use approach. This method is based upon the Department's historical experience with sick leave usage through payouts over the last five years, and considers past trends to determine the amount of sick leave expected to be used or paid in the future. The liability for the leave donation pool is measured using the average rate of entitled employees utilizing the leave donation as of the financial statement date. The liability for the direct sharing program is measured using the rate of the employee utilizing the leave as of the financial statement date. All leave is accrued when incurred in the Governmental Activities financial statements and presented under the caption Accrued Compensated Absences. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

**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.

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**Use of Estimates**

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

**Recently Issued Accounting Pronouncements**

***GASB Statement No. 101***

During fiscal year 2025, the Department implemented GASB Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires recognition of a liability for compensated absences that (1) is attributed to services already rendered; (2) accumulates; and (3) is more likely than not to be used for time off or otherwise paid or settled.

The implementation of GASB Statement No. 101 was accounted for as a change in accounting principle and applied retroactively in accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. As a result, beginning net position as of July 1, 2024 decreased by approximately \$334,716,000 due to an increase in the Department’s compensated absences liability of approximately \$334,716,000.

***GASB Statement No. 102***

During fiscal year 2025, the Department implemented GASB Statement No. 102, *Certain Risk Disclosures*. The primary objective of the Statement is to provide users of government financial statements with information about risks related to a government’s vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability.

Management evaluated the Department’s concentrations and constraints in accordance with GASB Statement No. 102 and determined there were no concentrations or constraints that met the criteria for disclosure.

***GASB Statement No. 103***

The GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Department has not determined the effect this Statement will have on its financial statements.

***GASB Statement No. 104***

The GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Department has not determined the effect this Statement will have on its financial statements.

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***GASB Statement No. 105***

The GASB issued Statement No. 105, *Subsequent Events*. The primary objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2026. The Department has not determined the effect this Statement will have on its financial statements.

**3. Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2025 consisted of cash in banks and equity in cash and cash equivalents and investments in State Treasury at June 30, 2025:

Cash in banks	\$ 219,815,112
Equity in cash and cash equivalents and investments in State Treasury	<u>2,125,201,755</u>
	<u>\$2,345,016,867</u>

**Equity in Cash and Cash Equivalents and Investments**

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, 2025, amounts held in the State Treasury by the Department are reported at fair value and totaled approximately \$2,125,202,000. The amounts held in the State Treasury reported in the accompanying financial statements reflects 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.

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***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, 2025, the carrying amount of total bank deposits and the corresponding bank balances was approximately \$41,537,000 and \$96,755,000, respectively. The HSPCS also held cash outside of the State Treasury totaling approximately \$178,278,000 at June 30, 2025.

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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**4. Capital Assets**

For the year ended June 30, 2025, capital assets activity for the Department was as follows:

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 101,198,001	\$ -	\$ (91,287)	\$ 101,106,714
Construction in progress	408,999,240	296,981,560	(236,508,666)	469,472,134
Total capital assets not being depreciated	<u>510,197,241</u>	<u>296,981,560</u>	<u>(236,599,953)</u>	<u>570,578,848</u>
Capital assets being depreciated				
Land improvements	446,683,685	64,253,449	-	510,937,134
Buildings and improvements	3,714,318,505	159,002,055	(127,560)	3,873,193,000
Furniture and equipment	472,407,918	25,653,255	(8,980,630)	489,080,543
Vehicles	29,141,051	4,537,219	(190,581)	33,487,689
Public library materials	59,131,021	4,176,698	(3,694,206)	59,613,513
Total capital assets being depreciated	<u>4,721,682,180</u>	<u>257,622,676</u>	<u>(12,992,977)</u>	<u>4,966,311,879</u>
Less: Accumulated depreciation for				
Land improvements	(288,361,564)	(20,361,515)	-	(308,723,079)
Buildings and improvements	(1,891,132,289)	(98,098,926)	76,536	(1,989,154,679)
Furniture and equipment	(385,713,350)	(24,881,847)	3,816,728	(406,778,469)
Vehicles	(16,294,956)	(3,653,604)	192,791	(19,755,769)
Public library materials	(50,866,757)	(3,309,723)	3,694,206	(50,482,274)
Total accumulated depreciation	<u>(2,632,368,916)</u>	<u>(150,305,615)</u>	<u>7,780,261</u>	<u>(2,774,894,270)</u>
Lease assets				
Buildings and improvements	40,065,461	2,560,459	(3,493,148)	39,132,772
Equipment	7,613,698	2,251,950	(1,179,081)	8,686,567
Total lease assets	<u>47,679,159</u>	<u>4,812,409</u>	<u>(4,672,229)</u>	<u>47,819,339</u>
Less: Accumulated amortization for				
Buildings and improvements	(14,201,185)	(5,091,825)	1,994,367	(17,298,643)
Equipment	(2,932,901)	(1,811,893)	1,179,082	(3,565,712)
Total accumulated amortization	<u>(17,134,086)</u>	<u>(6,903,718)</u>	<u>3,173,449</u>	<u>(20,864,355)</u>
Subscription assets				
Subscription	22,660,228	5,436,913	(4,172,616)	23,924,525
Less: Accumulated amortization	(7,496,970)	(6,016,587)	4,172,616	(9,340,941)
Total capital assets, net	<u>\$2,645,218,836</u>	<u>\$ 401,627,638</u>	<u>\$ (243,311,449)</u>	<u>\$2,803,535,025</u>

Depreciation and amortization expense was charged to functions as follows:

	<b>Governmental Activities</b>
School-related	\$ 149,856,238
State and complex area administration	6,695,018
Public libraries	6,674,664
Total additions to accumulated depreciation and amortization	<u>\$ 163,225,920</u>

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**5. Long-Term Liabilities**

The change in long-term liabilities during the year ended June 30, 2025 was as follows:

	<b>Accrued Compensated Absences*</b>	<b>Workers' Compensation Claims Reserve</b>	<b>Notes Payable</b>	<b>Lease Payable</b>	<b>Subscription Payable</b>
<b>Balance at July 1, 2024, as previously reported</b>	\$ 90,897,348	\$ 151,583,008	\$ 29,861,913	\$ 30,790,689	\$ 12,546,927
Adjustment for change in accounting principle	<u>334,715,871</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance at July 1, 2024, as restated</b>	425,613,219	151,583,008	29,861,913	30,790,689	12,546,927
Additions	46,436,386	33,813,985	71,019	4,836,840	5,436,912
Reductions	<u>-</u>	<u>(21,805,291)</u>	<u>(2,288,099)</u>	<u>(8,280,017)</u>	<u>(5,765,134)</u>
<b>Balance at June 30, 2025</b>	472,049,605	163,591,702	27,644,833	27,347,512	12,218,705
Less: Current portion	<u>(121,888,574)</u>	<u>(24,538,755)</u>	<u>(2,299,966)</u>	<u>(7,054,082)</u>	<u>(4,067,297)</u>
	<u>\$ 350,161,031</u>	<u>\$ 139,052,947</u>	<u>\$ 25,344,867</u>	<u>\$ 20,293,430</u>	<u>\$ 8,151,408</u>

\* The change in compensated absences liability is presented as a net change.

The carrying amount of liabilities for unpaid workers' compensation claims of approximately \$188,360,000 is reported at present value using a discount rate of 2.0%.

**Notes Payable**

Following is a summary of the three notes payable with the Hawaii Green Infrastructure Authority ("HGIA"):

Unsecured interest-free note payable, due in semi-annual installments of \$973,694 through June 30, 2037	\$ 22,483,985
Unsecured note payable, due in semi-annual installments of \$232,642 (principal and interest of 3.5%) through June 30, 2038	4,719,800
Unsecured note payable, due in semi-annual installments of \$32,433 (principal and interest of 3.5%) through December 31, 2030	<u>441,048</u>
	27,644,833
Current maturities	<u>2,299,966</u>
	<u>\$ 25,344,867</u>

Interest payments totaled approximately \$189,000 for the year ended June 30, 2025.

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Principal and interest payments to maturity are as follows:

<b>Years ending June 30</b>	
2026	\$ 2,299,966
2027	2,312,414
2028	2,325,302
2029	2,338,644
2030	2,352,459
2031–2035	11,842,461
2036–2040	4,173,587
	<u>\$ 27,644,833</u>

**Lease Payable**

The Department has entered into leases for building space and equipment use. The terms of the agreements range from 3 to 38 years. The calculated interest rate used ranges from 2.87% to 5.14%.

Principal and interest payments to maturity are as follows:

<b>Years ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2026	\$ 7,054,082	\$ 873,614	\$ 7,927,696
2027	4,837,939	633,180	5,471,119
2028	3,988,396	444,585	4,432,981
2029	2,031,957	200,424	2,232,381
2030	1,407,244	136,688	1,543,932
2031–2035	4,451,752	1,641,871	6,093,623
2036–2040	469,613	480,847	950,460
2041–2045	541,984	408,476	950,460
2046–2050	625,509	324,951	950,460
2051–2055	721,905	228,555	950,460
2056–2060	833,157	1,117,303	1,950,460
2061–2065	383,974	12,052	396,026
	<u>\$ 27,347,512</u>	<u>\$ 6,502,546</u>	<u>\$ 33,850,058</u>

**Subscription Assets and Liability**

The Department has entered into SBITAs for various administrative and operational purposes. These subscriptions include services related to cloud-based software applications, data storage, and management services. Under the terms of these arrangements, the Department does not take possession of the software at any time and the vendor provides ongoing services for the software's operation. The subscription periods vary, with initial noncancellable terms ranging from 2 to 10 years. The calculated interest rate used ranges from 3.93% to 5.35%.

For the year ended June 30, 2025, the Department recognized approximately \$637,000 of interest expense related to these arrangements.

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Principal and interest payments to maturity are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>Years ending June 30</b>			
2026	\$ 4,067,297	\$ 572,368	\$ 4,639,665
2027	3,947,328	380,256	4,327,584
2028	2,686,314	196,191	2,882,505
2029	1,517,766	67,345	1,585,111
	<u>\$ 12,218,705</u>	<u>\$ 1,216,160</u>	<u>\$ 13,434,865</u>

**6. 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 (“HCNP”) office. 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 \$5,530,000 commodities for the year ended June 30, 2025. No bonus commodities were received for the year ended June 30, 2025.

**7. 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 \$1,066,516,000 for the year ended June 30, 2025, have been reported as revenues and expenditures in the General Fund of the Department.

**8. Retirement Benefits**

**Pension Plan**

***Plan Description***

Generally, all full-time employees of the State and counties, which includes 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 Hawaii Revised Statutes (“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>.

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***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 plans. 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 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 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.

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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 a 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.

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- *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 2025 was 24% for general employees. Contributions to the pension plan from the Department were approximately \$464,629,000 for the year ended June 30, 2025.

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.

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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: <https://ags.hawaii.gov/reports/financial-reports/>.

**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 201 Merchant Street, Suite 1700, Honolulu, Hawaii 96813.

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

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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 \$232,896,000 for the year ended June 30, 2025. 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.

**9. Risk Management**

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year, except as noted below. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State's underwriting risks is as follows:

***Property Insurance***

The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is \$200,000,000, except for terrorism losses, which has a \$100,000,000 per occurrence limit. The deductible for losses such as windstorm, tsunamis, floods and earthquakes are 3% of the replacement costs to the property subject to a \$1,000,000 per occurrence minimum. The deductible for all other losses, except terrorism, is \$1,000,000 per occurrence. The deductible for terrorism is \$10,000 per occurrence.

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**Crime Insurance**

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State's General Fund.

**Casualty and Professional Liability**

From July 1, 2024 to November 30, 2024, the State had an effective general liability insurance policy that provided \$5,000,000 of coverage with a \$7,500,000 deductible. As of December 1, 2024, the State does not have any liability insurance policy. Therefore, the State is self-insured thereafter. Liability claims up to \$25,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General and funded from legislative appropriations of the State's General Fund.

**Cyber Liability Insurance**

The State is insured for various types of cyber-related activities with a loss limit up to \$10,000,000 with self-insured retention of \$1,000,000. This policy covers all departments and divisions except for UH and includes (with sub-limits) media content liability, PCI DSS assessment coverage, reputational risk response, reputational loss coverage, E discovery consultant services, data recovery amendatory system failure non-physical damage loss of use (bricking), system failure coverage, criminal reward expense, claim avoidance expense, crypto jacking coverage, fraudulent impersonation and telecommunication fraud coverage, court attendance cost coverage, company definition amendatory-scheduled entities with varying co-insurance (Tiers 1 & 2).

**Self-Insured Risks**

The State generally self-insures its automobile no fault and workers' compensation losses. Automobile losses up to \$25,000 per claim are administered by the Risk Management Office.

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, 2025, 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 \$163,592,000 as of June 30, 2025 (see Note 5).

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The following table represents changes in the amount of the estimated losses and the loss adjustment costs as of June 30, 2025 and 2024:

	<b>2025</b>	<b>2024</b>
<b>Unpaid losses and loss adjustment costs</b>		
Beginning of the fiscal year	\$ 151,583,008	\$ 142,984,837
Incurred losses and loss adjustment costs		
Provision of insured events of current fiscal year	25,273,075	24,871,126
Change in provision for insured events of prior fiscal years	<u>8,540,910</u>	<u>6,427,714</u>
Total incurred losses and loss adjustment costs	<u>33,813,985</u>	<u>31,298,840</u>
Payments		
Losses and loss adjustment costs attributable to insured events of current fiscal year	(1,610,648)	(1,910,312)
Losses and loss adjustment costs attributable to insured events of prior fiscal year	<u>(20,194,643)</u>	<u>(20,790,357)</u>
Total payments	<u>(21,805,291)</u>	<u>(22,700,669)</u>
<b>Balance at end of year</b>	<u>\$ 163,591,702</u>	<u>\$ 151,583,008</u>

**10. 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, 2025 were as follows:

General Fund	\$ 322,215,254
Federal Fund	108,855,161
Capital Projects Fund	739,817,332
Other Fund	51,762,603
	<u>\$1,222,650,350</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.

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**11. Subsequent Events**

The Department has reviewed all events that have occurred from July 1, 2025 through March 19, 2026, the date the financial statements were available for issuance, for proper accounting and disclosure in the financial statements.

The Department continues to engage in settlement discussions with the United Public Workers regarding the temporary hazard pay. Management estimates the potential exposure related to this matter to be approximately \$30 million.

However, as of March 19, 2026, the parties have not reached a settlement agreement. As the ultimate outcome and settlement may differ from management's estimate, the Department has not accrued a liability for the settlement in the financial statements as of and for the year ended June 30, 2025.

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MANAGEMENT'S DISCUSSION  
AND ANALYSIS (UNAUDITED)**

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**Required Supplementary Information**  
**Other Than Management's Discussion and Analysis**  
**(Unaudited)**

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Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund – Year Ended June 30, 2025

Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – Federal Fund – Year Ended June 30, 2025

Notes to Required Supplementary Information – Budgetary Control – Year Ended June 30, 2025

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**Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Unaudited)**

**Year Ended June 30, 2025**

	<b>Budgeted Amounts</b>		<b>Actual on Budgetary Basis</b>	<b>Variance Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
State allotments	<u>\$2,408,969,758</u>	<u>\$2,600,429,911</u>	<u>\$2,594,631,866</u>	<u>\$ (5,798,045)</u>
<b>Expenditures</b>				
School-related	2,299,757,455	2,472,589,086	2,391,624,180	80,964,906
State and complex area administration	63,338,750	80,082,955	79,403,432	679,523
Public libraries	<u>45,873,553</u>	<u>47,757,870</u>	<u>47,678,970</u>	<u>78,900</u>
Expenditures subtotal	<u>2,408,969,758</u>	<u>2,600,429,911</u>	<u>2,518,706,582</u>	<u>81,723,329</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,925,284</u>	<u>\$ 75,925,284</u>

See report of independent auditors and  
note to required supplementary information – budgetary control (unaudited).

**Department of Education**

**State of Hawaii**

**Federal Fund**

**Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Unaudited)**

**Year Ended June 30, 2025**

	<b>Budgeted Amounts</b>		<b>Actual on Budgetary Basis</b>	<b>Variance Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Federal grants	\$ 647,135,425	\$ 740,639,864	\$ 412,393,819	\$ (328,246,045)
<b>Expenditures</b>				
School-related	643,491,938	735,956,054	424,080,765	311,875,289
State and complex area administration	1,208,546	4,383,810	742,216	3,641,594
Public libraries	2,434,941	300,000	294,404	5,596
Expenditures subtotal	647,135,425	740,639,864	425,117,385	315,522,479
Excess of expenditures over revenues	\$ -	\$ -	\$ (12,723,566)	\$ (12,723,566)

See report of independent auditors and  
note to required supplementary information – budgetary control (unaudited).

## Department of Education

### State of Hawaii

#### Note to Required Supplementary Information – Budgetary Control (Unaudited)

Year Ended June 30, 2025

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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. For fiscal year 2025, general funds carried over totaled to approximately \$75.9 million, representing approximately 3.2% of recurring general fund appropriations totaling \$2.358 billion.

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, 2025:

	<b>General</b>	<b>Federal</b>
Excess of revenues over expenditures		
(expenditures over revenues) – actual on a budgetary basis	\$ 75,925,284	\$ (12,723,566)
Reserved for encumbrances at fiscal year-end	284,492,439	43,817,847
Expenditures for liquidation of prior fiscal year encumbrances	(360,394,364)	(71,072,710)
Revenues and expenditures for unbudgeted programs and capital projects accounts, net	(10,249,322)	-
Net accrued revenues and expenditures	<u>110,083,687</u>	<u>(17,300,147)</u>
Excess of revenues over expenditures		
(expenditures over revenues) – GAAP basis	<u>\$ 99,857,724</u>	<u>\$ (57,278,576)</u>

See report of independent auditors.

## **Supplementary Information**

**Department of Education  
State of Hawaii  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2025**

Federal Grantor/Pass-through Grantor and Program or Cluster Title (Pass-Through Identifying Number)	Federal Assistance Listing Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. Department of Agriculture</b>			
Child Nutrition Cluster			
National School Lunch Program	10.555	\$ 90,370,738	\$ 13,197,515
Summer Food Service Program for Children			
State administrative expense	10.559	40,393	-
Fresh Fruit and Vegetable Program	10.582	<u>653,741</u>	<u>-</u>
Total – Child Nutrition Cluster		91,064,872	13,197,515
Food Bank Network	10.182	2,815,230	-
Local Food for Schools Cooperative Agreement Program	10.185	195,036	-
Child Nutrition-Technology Innovation Grant	10.541	138,890	-
Child and Adult Care Food Program	10.558	742,751	742,751
State Administrative Expense for Child Nutrition	10.560	1,474,315	-
Farm to School State Formula Grant	10.645	162,998	-
Team Nutrition Training Grants	10.574	128,939	-
Child Nutrition Discretionary Grants Limited Availability	10.579	<u>17,547</u>	<u>-</u>
<b>Total – U.S. Department of Agriculture</b>		<b><u>96,740,578</u></b>	<b><u>13,940,266</u></b>
<b>U.S. Department of Defense</b>			
Competitive Grants Promoting K-12 Student Achievement at Military-Connected Schools	12.556	1,995,855	-
Department of Defense Impact Aid (Supplement, CWSD, BRAC)	12.558	6,878,253	-
Community Investment	12.600	31,136,652	-
Passed through the Hawaii Department of Business, Economic Development & Tourism			
Economic Adjustment Assistance for State Governments (MOA between HDBEDT and HDOE 2024.06.25)	12.617	<u>114,095</u>	<u>-</u>
<b>Total – U.S. Department of Defense</b>		<b><u>40,124,855</u></b>	<b><u>-</u></b>
<b>U.S. Department of the Interior</b>			
Economic, Social, and Political Development of the Territories	15.875	<u>501,780</u>	<u>-</u>
<b>Total – U.S. Department of the Interior</b>		<b><u>501,780</u></b>	<b><u>-</u></b>
<b>U.S. Department of Labor</b>			
Passed through the University of Hawaii			
Community Project Funding/Congressionally Directed Spending (23A60CP00011-01-00)	17.289	<u>75,532</u>	<u>-</u>
<b>Total – U.S. Department of Labor</b>		<b><u>75,532</u></b>	<b><u>-</u></b>
<b>Institute of Museum and Library Services</b>			
Grants to States	45.310	<u>1,643,769</u>	<u>-</u>
<b>Total – Institute of Museum and Library Services</b>		<b><u>1,643,769</u></b>	<b><u>-</u></b>
<b>U.S. Environmental Protection Agency</b>			
Passed through State Department of Health			
Water Infrastructure Improvements for the Nation Small and Underserved Communities			
Emerging Contaminants Grant Program (MOA between HDOH and HDOE 2023.11.01)	66.442	<u>33,882</u>	<u>-</u>
<b>Total – U.S. Environmental Protection Agency</b>		<b><u>33,882</u></b>	<b><u>-</u></b>

(continued)

See accompanying report of independent auditors 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, 2025**

Federal Grantor/Pass-through Grantor and Program or Cluster Title (Pass-Through Identifying Number)	Federal Assistance Listing Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. Department of Education</b>			
Adult Education – Basic Grants to States	84.002A	2,519,652	-
Title I – Grants to Local Educational Agencies	84.010A	77,746,687	-
Migrant Education – State Grant Program	84.011A	3,274,150	-
Title I – State Agency Program for Neglected and Delinquent Children and Youth	84.013A	25,915	-
Special Education Cluster (IDEA)			
Special Education – Grants to States (IDEA Part B)	84.027A	57,328,265	-
Special Education – Preschool Grants (IDEA Preschool)	84.173A	<u>1,345,211</u>	-
Total – Special Education Cluster		<u>58,673,476</u>	-
Impact Aid	84.041	71,616,641	-
Migrant Education Coordination Program	84.144F	43,963	-
School-Based Mental Health Services Grant	84.184H	2,764,084	-
Project School Emergency Response to Violence	84.184S	1,101,830	-
Education for Homeless Children and Youth	84.196A	405,505	-
Innovative Approaches to Literacy; Promise Neighborhoods; Full-Service Community Schools; and Congressionally Directed Spending for Elementary and Secondary Education Community Projects	84.215K	711,261	-
Twenty-First Century Community Learning Centers	84.287C	6,924,801	-
Native Hawaiian Education	84.362A	242,744	-
English Language Acquisition State Grants	84.365A	4,046,051	-
English Language Acquisition, Language Enhancement and Academic			
Supporting Effective Instruction State Grant	84.367A	12,171,606	-
Grants for Enhanced Assessment Instruments	84.368A	865,834	-
Grants for State Assessments and Related Activities	84.369A	3,374,658	-
Striving Readers Comprehensive Literacy (“SRCL”) Program	84.371C	9,434,526	1,302,409
Statewide Longitudinal Data Systems	84.372A	768,261	602,447
Student Support and Academic Enrichment Program	84.424A	9,580,137	-
Student Support and Academic Enrichment Program	84.424F	1,145,695	-
COVID-19 Education Stabilization Fund	84.425U	49,663,060	-
COVID-19 Education Stabilization Fund	84.425W	1,399,414	-
Passed through Alu Like, Inc.			
Native Hawaiian Career and Technical Education (VE-CAS2122-06)	84.259A	304,753	-
Passed through University of Hawaii			
Career and Technical Education – Basic Grants to States (MA1834, MA1983, MA2112)	84.048A	3,199,132	-
Gaining Early Awareness and Readiness for Undergraduate Programs (MA1912, MA2086)	84.334S	1,875,904	-
Native Hawaiian Education (MA1594)	84.362A	<u>112,164</u>	-
Total – Passed through University of Hawaii		<u>5,187,200</u>	-
<b>Total – U.S. Department of Education</b>		<u><b>323,991,904</b></u>	<u><b>1,904,856</b></u>

(continued)

See accompanying report of independent auditors 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, 2025**

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Federal Grantor/Pass-through Grantor and Program or Cluster Title (Pass-Through Identifying Number)	Federal Assistance Listing Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>U.S. Department of Health and Human Services</b>			
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	75,391	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	2,186,016	-
Head Start	93.600	120,936	-
Passed through State Department of Human Services			
Temporary Assistance for Needy Families (DHS-24-TANF-0001)	93.558	4,097,962	-
Passed through University of Hawaii			
Every Student Succeeds Act/Preschool Development Grants (MA1985, MA2192)	93.434	<u>106,311</u>	-
<b>Total – U.S. Department of Health and Human Services</b>		<u><b>6,586,616</b></u>	<u>-</u>
<b>Corporation for National and Community Service</b>			
AmeriCorps Volunteers In Service To America	94.013	<u>13,349</u>	-
<b>Total – Corporation for National and Community Service</b>		<u><b>13,349</b></u>	<u>-</u>
<b>U.S. Department of Homeland Security</b>			
Passed through the Hawaii Emergency Management Agency			
Disaster Grants – Public Assistance (Presidentially Declared Disasters) (FEMA-4510-DR-HI, FEMA-4724-DR-HI)	97.036	<u>6,194,698</u>	-
<b>Total – U.S. Department of Homeland Security</b>		<u><b>6,194,698</b></u>	<u>-</u>
<b>Total expenditures of federal awards</b>		<u><b>\$ 475,906,963</b></u>	<u><b>\$ 15,845,122</b></u>

(concluded)

See accompanying report of independent auditors 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, 2025**

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**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") for the year ended June 30, 2025 includes the federal award activity of the Department of Education (the "DOE"), the Hawaii State Public Library System (the "HSPLS"), and certain Hawaii State Public Charter Schools (the "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:

- Connections Public Charter School
- Hawai'i Academy of Arts and Science Public Charter School
- Ka Waihona O Ka Na'auao Public Charter School
- Kanu O Ka 'Āina New Century Public Charter School
- State Public Charter School Commission

Awards listed in these separately issued Uniform Guidance submissions, with federal expenditures aggregating to approximately \$5,791,000 for the year ended June 30, 2025, 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 does not use the de minimis indirect cost rate as the Department is not allowed to per the Uniform Guidance.

**4. Disaster Grants – Public Assistance (AL No. 97.036)**

Expenditures reported for AL No. 97.036, *Disaster Grants – Public Assistance*, represent federal reimbursements received during the year ended June 30, 2025 for eligible costs that were incurred and paid by the Department in prior fiscal years using non-federal funds. Such amounts are reported as federal expenditures for purposes of the Schedule upon the earlier of reimbursement from the federal government or notification of the approval of project closeout.

See accompanying report of independent auditors.

**PART II**  
**Compliance and Internal Control**



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

The Auditor  
State of Hawaii

Board of Education  
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, 2025, 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 19, 2026. Our report includes a reference to other auditors who audited the financial statements of certain public charter schools, as described in our report on the Department's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Report on 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 designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## Report on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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 19, 2026



**Independent Auditors' Report 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**

***Opinion on Each Major Federal Program***

We have audited the Department of Education, State of Hawaii's ("the Department") compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on the Department's major federal programs for the year ended June 30, 2025. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 programs for the year ended June 30, 2025.

***Basis for Opinion on Each Major Federal Program***

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 ("*Government Auditing Standards*"); 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*"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Department's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Department's federal programs.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Department's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Department's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Department's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matter – Federal Expenditures Not Included in the Compliance Audit***

The Department's basic financial statements include the operations of the Connections Public Charter School, the Hawai'i Academy of Arts and Science Public Charter School, the Ka Waihona O Ka Na'auao Public Charter School, the Kanu O Ka 'Āina New Century Public Charter School, and the State Public Charter School Commission. These entities expended \$5,790,823 in federal awards which is not included in the Department's schedule of expenditures of federal awards during the year ended June 30, 2025. Our compliance audit, described in the Opinion on Each Major Federal Program section of our report, did not include the operations of the Connections Public Charter School, the Hawai'i Academy of Arts and Science Public Charter School, the Ka Waihona O Ka Na'auao Public Charter School, the Kanu O Ka 'Āina New Century Public Charter School, and the State Public Charter School Commission because these entities separately engaged auditors to perform audits in accordance with the Uniform Guidance, or did not require an audit in accordance with the Uniform Guidance.

### **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 19, 2026

**Department of Education  
State of Hawaii  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2025**

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**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued	<u>Unmodified</u>	
Internal control over financial reporting		
• Material weaknesses identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
• Significant deficiencies identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

**Federal Awards**

Internal control over major programs		
• Material weaknesses identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
• Significant deficiencies identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditors’ report issued on compliance for major programs	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

Identification of major federal programs

<b>Name of Federal Program or Cluster</b>	<b>Federal Assistance Listing Number</b>
Child Nutrition Cluster	10.555 / 10.559 / 10.582
Food Bank Network	10.182
Department of Defense Impact Aid (Supplement, CWSD, BRAC)	12.558
Impact Aid	84.041
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S
English Language Acquisition, Language Enhancement and Academic Supporting Effective Instruction State Grant	84.367A
Grants for State Assessments and Related Activities	84.369A
Student Support and Academic Enrichment Program	84.424A / 84.424F
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036
Dollar threshold used to distinguish between Type A and Type B program	<u><b>\$3,000,000</b></u>
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

**Department of Education  
State of Hawaii  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2025**

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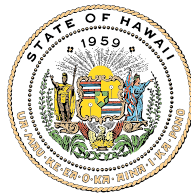
**Section II – Financial Statement Finding**

None noted.

**Section III – Federal Award Findings and Questioned Costs**

None.

JOSH GREEN, M.D.  
GOVERNOR



KEITH T. HAYASHI  
SUPERINTENDENT

STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
KA 'OIHANA HO'ONA'AUAO  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

March 19, 2026

Accuity LLP  
999 Bishop Street, Suite 2300  
Honolulu, HI 96813

Ladies and Gentlemen:

The Single Audit of the Hawaii State Department of Education (Department) for the fiscal year ended June 30, 2025 was completed before the March 31, 2026 Federal deadline. We are pleased that the Department received an unmodified opinion on its financial statements.

In accordance with 2 CFR 200.508, the following pages contain the **Summary Schedule of Prior Audit Findings** for the year ended June 30, 2023.

Sincerely,

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

Keith T. Hayashi  
Superintendent

KTH:dy  
c: Internal Audit Office

**Department of Education  
 State of Hawaii  
 Summary Schedule of Prior Audit Findings  
 Year Ended June 30, 2025**

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<u>Finding</u>	<u>Description</u>	<u>Type</u>	<u>Status</u>		<u>Current Year Finding</u>
			<u>Resolved</u>	<u>Unresolved</u>	
2023-005	Special Tests and Provisions	Control Deficiency ("CD")		X	
2023-006	Matching, Level of Effort, and Earmarking	CD	X		

**Department of Education  
State of Hawaii  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2025**

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**Corrective Actions Taken for Unresolved Findings**

**Finding No. 2023 005: Special Tests and Provisions**

The Department determined that delays in providing services to Priority for Service (“PFS”) students under the Migrant Education Program were attributable to incomplete assessment data, which affected timely identification. The Department reviewed the data process, identified and corrected the underlying data issue, and successfully updated the applicable assessment information. As a result, PFS students were accurately identified, and program staff were notified to ensure that required instructional and support services are delivered during the current school year. The Department also issued statewide guidance reinforcing federal requirements and administrator oversight responsibilities. Continued professional development and monitoring activities are in place to ensure sustained compliance.