

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

For the Fiscal Year Ended June 30, 2014

**Submitted by
The Auditor
State of Hawaii**



March 27, 2015

Ms. Jan Yamane, Acting State Auditor
Office of the Auditor
State of Hawaii

Dear Ms. Yamane:

This is our report on the financial audit of the Department of Health of the State of Hawaii (DOH) as of and for the fiscal year ended June 30, 2014. Our audit was conducted in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Compliance Supplement for Single Audits of State and Local Governments*.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form opinions on the fairness of the presentation of the DOH's basic financial statements as of and for the fiscal year ended June 30, 2014, and to comply with the requirements of OMB Circular A-133, which establishes audit requirements for state and local governments that receive federal financial assistance. More specifically, the objectives of the audit were as follows:

1. To provide a basis for opinions on the fairness of the DOH's basic financial statements and the schedule of expenditures of federal awards as of and for the fiscal year ended June 30, 2014.
2. To consider the DOH's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests of the DOH's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D and 103F, Hawaii Revised Statutes), that could have a direct and material effect on the determination of financial statement amounts.
4. To consider the DOH's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report on internal control over compliance.

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

SCOPE OF THE AUDIT

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the DOH for the fiscal year ended June 30, 2014.

ORGANIZATION OF THE REPORT

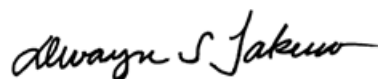
This report is presented in six parts as follows:

- Part I The basic financial statements and related notes to the financial statements of the DOH as of and for the fiscal year ended June 30, 2014, and our opinion on the basic financial statements and supplementary information.
- Part II Our report on internal control over financial reporting and on compliance and other matters.
- Part III Our report on compliance for each major program and internal control over compliance.
- Part IV The schedule of findings and questioned costs.
- Part V The summary schedule of prior audit findings.
- Part VI Corrective action plan as provided by the DOH.

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

Sincerely,

N&K CPAs, Inc.



Dwayne Takeno
Principal

**DEPARTMENT OF HEALTH
STATE OF HAWAII**

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STATE OF HAWAII**

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (Department), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and budgetary comparisons for each major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the Department are intended to present the financial position, the changes in the financial position and, where applicable, cash flows and budgetary comparisons, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information 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, 2014, the changes in its financial position, or, where applicable, its cash flows and budgetary comparisons, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2015 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 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.

N&K CPAs, Inc.

Honolulu, Hawaii
March 11, 2015

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

This Management's Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities and performance of the State of Hawaii, Department of Health (the "Department") during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the Department's financial statements and the related notes to the financials (which follow this section). The following is a brief description of the contents of those three sections:

Overview of the Basic Financial Statements

This MD&A serves as an introduction to the Department's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide information about the Department's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the statement of net position and the statement of activities.

The government-wide statements report information about the Department as a whole using accounting methods similar to those used by private sector companies. The statement of net position provides both short-term and long-term information about the Department's financial position, which assists in assessing the Department's economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The government-wide financial statements include two statements:

- The *Statement of Net Position* presents all of the Department's assets and liabilities, with the difference between the two reported as "net position." Over time, increases and decreases in the Department's 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 most recent fiscal year.

The government-wide financial statements of the Department are further divided into two categories:

- *Governmental activities* - The activities in this section are primarily supported by State of Hawaii appropriations, funds from the tobacco settlement, beverage container deposit administrative fees, federal grants, and other fees.

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

- *Business-type activities* - These functions normally are intended to recover all or a significant portion of their costs through user's fees and charges to external users. These activities include the Department's two revolving loan funds.

Fund Financial Statements

The fund financial statements include the Department's: (1) governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii, by revenues from the master tobacco settlement agreement between the states and tobacco companies, beverage container deposit program collections, and federal grants; (2) proprietary funds, which consist of revolving loan funds and are reported similar to business activities; and (3) fiduciary funds. The governmental funds are presented on the modified accrual basis of accounting. The proprietary and the fiduciary funds are presented on the accrual basis of accounting.

The fund financial statements provide more detailed information about the Department's most significant funds and not the Department as a whole. In these statements, the financial activities of the Department are recorded in individual funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are reported as a major fund or a non-major (other) fund. The Governmental Accounting Standards Board ("GASB") issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The fund financial statements also include the budgetary comparison statements, which include reconciliations for the general fund, Hawaii tobacco settlement special fund, and deposit beverage container deposit special fund, comparing the excess of revenues over expenditures presented on a budgetary basis to the excess (deficiency) of revenues over expenditures presented in conformity with U.S. generally accepted accounting principles ("GAAP") as presented in the governmental fund financial statements.

To reiterate, the Department has three types of funds:

- *Governmental funds* – Governmental funds are used to account for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources as well as on the balances of expendable resources available at the end of the fiscal year.

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate comparison between governmental funds and governmental activities in the government-wide financial statements.

- *Proprietary funds* - Proprietary funds are used to report activities that operate more like those of commercial enterprises. They are known as enterprise funds because they charge fees for services provided to outsiders. They are used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses enterprise funds to account for the operations of its two revolving loan funds each of which are considered to be major funds of the Department.
- *Fiduciary funds* - The fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the government-wide financial statements since these resources are not available to support the Department's programs.

Notes to the Basic Financial Statements

The *Notes to Basic Financial Statements* section provides additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements follow the basic financial statements.

Government-wide Financial Highlights

- The Department's total net position increased from \$796.1 million as of June 30, 2013 to \$879.3 million as of June 30, 2014, or by approximately \$83.2 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$51.8 million and business type activities' net position of \$31.4 million during the year.
- The Department's governmental funds reported an aggregate increase in fund balance of approximately \$46.5 million during the year totaling \$216.0 million at June 30, 2014. Note that this is based on the fund balance at June 30, 2013 of \$169.5 million.

**Department of Health
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$31.4 million for FY 2014. Total net position was \$624.1 million at June 30, 2014 compared to the FY 2013 year-end total of \$592.7 million.

Government-Wide Financial Analysis

This section includes condensed government-wide financial information and analysis.

**Condensed Statement of Net Position
June 30,
(\$000)**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Current assets	\$ 304,830	\$ 285,086	\$ 231,292	\$ 246,538	\$ 536,122	\$ 531,624
Capital assets	61,487	53,829	260	212	61,747	54,041
ARRA advances	--	--	12,488	12,198	12,488	12,198
Loans receivable, noncurrent	--	--	<u>383,044</u>	<u>336,269</u>	<u>383,044</u>	<u>336,269</u>
Total assets	<u>\$ 366,317</u>	<u>\$ 338,915</u>	<u>\$ 627,084</u>	<u>\$ 595,217</u>	<u>\$ 993,401</u>	<u>\$ 934,132</u>
Current liabilities	\$ 93,018	\$ 115,139	\$ 770	\$ 512	\$ 93,788	\$ 115,651
Long term liabilities	<u>18,147</u>	<u>20,383</u>	<u>2,165</u>	<u>1,959</u>	<u>20,312</u>	<u>22,342</u>
Total liabilities	111,165	135,522	2,935	2,471	114,100	137,993
Net position						
Net investment in capital assets	61,487	53,829	259	212	61,746	54,041
Restricted	49,080	132,369	623,890	592,534	672,970	724,903
Unrestricted	<u>144,585</u>	<u>17,195</u>	<u>--</u>	<u>--</u>	<u>144,585</u>	<u>17,195</u>
Total net position	<u>255,152</u>	<u>203,393</u>	<u>624,149</u>	<u>592,746</u>	<u>879,301</u>	<u>796,139</u>
Total liabilities						
and net position	<u>\$ 366,317</u>	<u>\$ 338,915</u>	<u>\$ 627,084</u>	<u>\$ 595,217</u>	<u>\$ 993,401</u>	<u>\$ 934,132</u>

As noted earlier, changes in net position may serve over time as a useful indicator of the Department's financial position. As of June 30, 2014, the Department's total net position was approximately \$879.3 million.

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

At June 30, 2014, in addition to equity in cash and cash equivalents in the state treasury approximating \$369.6 million, the Department had total loans receivable from county governments in the amount of \$414.3 million arising from its two revolving loan funds. The Department had total liabilities of \$114.1 million at June 30, 2014 of which \$11.5 million relates to accrued wages and employee benefits payable. Approximately \$43.1 million in liabilities relate to vouchers and contracts payable. At June 30, 2014, restricted net position was \$673.0 million. The restrictions arise from legal and contractual agreements.

**Condensed Statement of Activities
Fiscal Years Ended June 30,
(\$000)**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Revenue						
Program revenues						
Charges for services	\$ 15,698	\$ 30,065	\$ 5,633	\$ 6,771	\$ 21,331	\$ 36,836
Operating grants and contributions	126,322	111,624	30,893	25,353	157,215	136,977
General revenues						
State appropriated funds	411,119	395,077	--	--	411,119	395,077
Non-imposed fringe benefits	49,850	44,801	--	--	49,850	44,801
Hawaii tobacco settlement special fund	52,321	48,425	--	--	52,321	48,425
Environmental fees and taxes	<u>54,116</u>	<u>39,534</u>	<u>--</u>	<u>--</u>	<u>54,116</u>	<u>39,534</u>
Total revenues	709,426	669,526	36,526	32,124	745,952	701,650
Expenses						
General administration	41,626	36,945	--	--	41,626	36,945
Environmental health administration	65,310	49,409	9,148	12,750	74,458	62,159
Behavioral health administration	210,827	228,744	--	--	210,827	228,744
Health resources administration	<u>293,246</u>	<u>331,127</u>	<u>--</u>	<u>--</u>	<u>293,246</u>	<u>331,127</u>
Total expenses	<u>611,009</u>	<u>646,225</u>	<u>9,148</u>	<u>12,750</u>	<u>620,157</u>	<u>658,975</u>
Excess before transfers	98,417	23,301	27,378	19,374	125,795	42,675
Transfers	<u>(46,658)</u>	<u>(20,511)</u>	<u>4,025</u>	<u>5,872</u>	<u>(42,633)</u>	<u>(14,639)</u>
Change in net position	51,759	2,790	31,403	25,246	83,162	28,036
Net position						
Beginning of year	<u>203,393</u>	<u>200,603</u>	<u>592,746</u>	<u>567,500</u>	<u>796,139</u>	<u>768,103</u>
End of year	\$ <u>255,152</u>	\$ <u>203,393</u>	\$ <u>624,149</u>	\$ <u>592,746</u>	\$ <u>879,301</u>	\$ <u>796,139</u>

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

Governmental activities increased the Department's net position by \$51.8 million in FY 2014, which was 25.5% increase from FY 2013. The change is due to increases in General revenues of state appropriated funds, non-imposed fringe benefits, Hawai'i tobacco settlement special fund and Environmental fees and taxes. Effective July 1, 2013, cigarette tax distribution rates increased in accordance with Act 192, SHL 2010, which has significantly increased the revenue in FY 2014 compared to FY 2013. The Hawai'i tobacco settlement special fund received more revenues from the Master Settlement Agreement in FY 2014 and several programs received more federal grant awards in FY 2013. There were increases in the state appropriated funds of labor savings restoration resulting from ceasing Supplemental Time-Off, effective July 1, 2013 and pay raises/adjustments, in accordance with executive orders and collective bargaining agreements.

Revenues of the Department's business-type activities, which increased by \$4.4 million from 2013, consist of the Department's environmental loan programs - one for water pollution control and the other for drinking water treatment - were generated from charges for services, program investment income, and federal assistance program funds as well as state matching funds. Charges for services consist primarily of administration loan fees and interest income on loans related to the Department's two revolving loan programs. The majority of the programs' investment income is from the Department's participation in the State Treasury Investment Pool System.

For the fiscal year ended June 30, 2014, business-type activities increased the Department's net position by \$31.4 million to \$624.1 million as compared to the fiscal year ending June 30, 2013.

Total government-wide expenses for FY 2014 were \$620.2 million of which \$611.0 million was for governmental activities. As compared to FY 2013, total government-wide expenses were \$659.0 million of which \$646.2 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended a significant 34.0 percent or \$210.8 million of departmental funds with a decrease of \$17.9 million over FY 2013. This administration is responsible for providing available and coordinated mental health and substance abuse treatment and prevention programs. Programs within this administration are:

- Adult Mental Health Division ("AMHD") that includes the Hawaii State Hospital and Community Mental Health Center Branches;
- Child and Adolescent Mental Health Division ("CAMHD") which includes seven Family Guidance Centers and the Family Court Liaison Branches; and

**Department of Health
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

- Alcohol and Drug Abuse Division ("ADAD") which plans for and purchases substance abuse prevention and treatment services for adolescents and adults.

The decrease in expenses are primarily attributed to a significant number of invoices dated prior to July 1, 2013 that were paid after June 30, 2013 for various behavioral health services.

The Department's Health Resources Administration expended approximately 47.3 percent of department funds. FY 2014 expenses for this Administration decreased \$37.9 million over FY 2013. Major programs in this administration include:

- Developmental Disabilities Division ("DDD") that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement;
- Family Health Services Division ("FHSD") that administers the State's Early Intervention program for children zero to three in compliance with the Federal Individual with Disabilities Education Act, Part C as well as serving children, youth and families through its three branches, namely, Children with Special Health Needs, Maternal and Child Health, and Women, Infants and Children;
- Emergency Medical Services and Injury Prevention System Branch ("EMSIPSB") that includes the State's mandated Emergency Medical Services, which operates the State's emergency ambulance service in the four major counties, and the injury prevention program;
- Communicable Disease Division which provides tuberculosis control, Hansen's disease control programs in the community and at Kalaupapa, and STD/AIDS prevention services;
- Disease Outbreak Control Division which provides immunization and disease investigation services as well as provides emergency response to disease outbreaks and potential acts of bioterrorism;
- General Medical and Preventative Services Division provides public health dental services to the State's disabled clientele and public health nursing services.

The decrease in expenditures is due to payments made for invoices dated prior to July 1, 2013 for ambulance services in EMSIPSB that were paid after June 30, 2013.

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

The Department's Environmental Health Administration is responsible for the management of the clean air, clean water, solid and hazardous waste, public health sanitation, vector control, and purity of food and drugs. It expended approximately 12.0 percent of the departmental funds with an increase of \$12.3 million expended versus FY 2013 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, Department's General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and five administratively attached agencies. This administration expends approximately 6.7 percent of the departmental funds.

Governmental Funds Financial Analysis

The following table presents revenues and expenditures of the governmental funds for FY 2014 and FY 2013 (\$000):

	<u>2014</u>	<u>2013</u>
Revenues		
State general fund allotments	\$ 417,407	\$ 395,077
Non-imposed fringe benefits	49,850	44,801
Hawaii tobacco settlement special fund	52,321	48,245
Deposit beverage container deposit special fund	23,760	21,507
Intergovernmental	95,741	122,178
Taxes, fees, fines and other	70,934	37,247
Investment income	<u>289</u>	<u>1,108</u>
Total revenues	710,302	670,163
Expenditures		
General administration	45,251	34,612
Environmental health	65,378	48,759
Behavioral health	217,312	227,560
Health resources	<u>292,063</u>	<u>328,788</u>
Total expenditures	<u>620,004</u>	<u>639,719</u>
Excess of revenues over expenditures before transfers	\$ <u>90,298</u>	\$ <u>30,444</u>

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

The governmental funds revenue consist of the Department's general fund, Hawaii tobacco settlement special fund ("HTSSF"), deposit beverage container deposit special fund ("DBCDSF"), intergovernmental (federal) funds, taxes, fees, fines and investment income.

During the fiscal year ended June 30, 2014, general fund revenues were \$454.9 million, including \$49.7 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$414.1 million.

For FY 2014, the HTSSF earned revenues of \$52.3 million. A net amount of \$32.1 million was transferred to other State departments and agencies of which \$4.7 million was for the Children's Health Insurance Program of the Department of Human Services, \$12.6 million was for the University of Hawaii to pay debt service on revenue bonds to support construction of a new health and wellness center, to include a new medical school and bioresearch center in Kakaako, and \$20.0 million was required to be transferred to the State's General Fund.

In FY 2014, the DBCDSF earned revenues of \$23.8 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$21.1 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$46.7 million in deposits from distributors and repaid \$36.9 million in deposits to consumers during FY 2014.

The proprietary funds consist of two funds: Water Pollution Control Revolving Fund ("WPCRF") and Drinking Water Treatment Revolving Loan Fund ("DWTRLF") and are reported in the government-wide statement of net position and statement of activities as business-type activities.

The WPCRF accounts for federal and state funds used to provide loans to county governments for the construction of wastewater treatment facilities and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2014, WPCRF received \$8.4 million and \$2.2 million of federal and state funds, respectively. WPCRF also disbursed \$59.9 million in loan proceeds and collected \$27.4 million in principal repayments in 2014. As compared to 2013, the fund collected \$19.0 million and \$3.2 million in federal and state contributions, and disbursed \$28.5 million in loan proceeds and collected \$46.5 million in principal payments.

The DWTRLF accounts for federal and state match funds used to provide loans and other types of financial assistance to public water systems for drinking water infrastructure and the repayment of principal interest and fees from such loans and the investment of such monies. During FY 2014, DWTRLF received \$22.2 million and \$1.8 million of federal and state funds, respectively. DWTRLF also disbursed \$23.8 million in loan proceeds and collected \$4.8 million in principal repayments in 2014. As compared to 2013, the DWTRLF collected \$4.7 million and \$2.7 million in federal and state contributions, and disbursed \$3.3 million in loan proceeds and collected \$15.1 million in principal payments.

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

The Department accounts for funds held as an agent and/or trustee for certain individuals in the fiduciary funds.

Budgetary Analysis

The following budget information relates to the general fund, Hawaii tobacco settlement special fund, and deposit beverage container deposit special fund for 2014:

	Budgeted Amounts (\$000)		Actual on a Budgetary Basis (\$000)
	Original	Final	
General fund			
Revenues	\$ 417,029	\$ 425,630	\$ 414,955
Expenditures			
General administration	27,627	27,982	27,065
Environmental health	17,737	18,266	17,735
Behavioral health	191,511	195,108	190,157
Health resources	180,155	184,273	179,996
Hawaii tobacco settlement special fund			
Revenues	58,996	59,061	52,309
Expenditures	58,996	59,061	52,429
Deposit beverage container deposit special fund			
Revenues	87,295	87,311	59,658
Expenditures	87,295	87,311	61,829

For the Hawaii tobacco settlement special fund, the actual expenditures of \$52.4 million in FY 2014 were \$0.1 million more than the actual revenues received.

The deposit beverage container program recognized revenues on a budgetary basis of \$59.7 million, which is based on the actual number of containers sold. In fiscal year 2013, there were 911.8 million containers sold. The amount of containers sold increased to 933.7 million in fiscal year 2014.

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

Capital Assets

As of June 30, 2014, the Department's governmental activities had invested approximately \$61.5 million (net of accumulated depreciation) in a broad range of capital assets. See Note D to the Department's financial statements for a description of capital assets activities for the fiscal year ended June 30, 2014.

**Capital Assets
Governmental Activities
June 30, 2014
(\$000)**

	<u>2014</u>	<u>2013</u>
Land	\$ 1,018	\$ 1,018
Land improvements	3,305	3,110
Buildings and building improvements	158,938	146,524
Furniture and equipment	<u>21,857</u>	<u>22,754</u>
Total	185,118	173,406
Accumulated depreciation	<u>123,631</u>	<u>119,577</u>
Total capital assets, net	\$ <u>61,487</u>	\$ <u>53,829</u>

Currently Known Facts, Decisions, or Conditions

Although the State's economy improved since last fiscal year, the State continued its cautious approach regarding expenditures. Therefore, the Department has continued to evaluate and monitor the statewide service delivery system of the adult mental health program in order to improve service delivery and to contain operational costs.

In FY 2014, AMHD serviced 10,408 clients as compared to the 10,728 clients serviced in FY 2013. AMHD's Access Line continues to provide the community with a resource site for information as well as a referral point for possible clients.

In the developmental disabilities program, the number of clients increased by 16 clients in FY 2014. In FY 2014, the program served 2,615 clients in the home and community-based waiver program as compared to 2,599 clients served in FY 2013.

**Department of Health
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014**

Further, the Federal Medical Assistance Percentage ("FMAP") increased from 48.21 percent to 49.52 percent for the period October 2012 to September 2013. The FMAP decreased from 49.52 percent to 48.15 percent effective October 2013 to September 2014. The FY 2014 year-end Average Cost per Client ("APC") increased to \$40,808 as compared to the FY 2013 year-end APC of \$39,739.

And lastly, the WPCRF executed a total of six loan agreements for \$39.4 million. DWTRLF executed a total of ten loan agreements for \$32.9 million during FY 2014. Further, the WPCRF expected to execute a total of four loan agreements in the amount of \$60.3 million while the DWTRLF expected to execute a total of eight loan agreements for \$56.0 million in FY 2015.

**Department of Health
State of Hawaii
STATEMENT OF NET POSITION
June 30, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 171,480,368	\$ 198,135,915	\$ 369,616,283
Receivables			
Due from State Treasury	99,778,304	49,945	99,828,249
Due from other State agencies	2,757,000	--	2,757,000
Accrued interest and loan fees	77,318	1,655,910	1,733,228
Accounts receivable	1,447,690	--	1,447,690
Due from federal government	3,988,855	102,743	4,091,598
Tobacco settlement receivable	25,300,000	--	25,300,000
Current maturities of loans receivable	--	<u>31,347,822</u>	<u>31,347,822</u>
	<u>133,349,167</u>	<u>33,156,420</u>	<u>166,505,587</u>
Total current assets	<u>304,829,535</u>	<u>231,292,335</u>	<u>536,121,870</u>
ARRA advances	--	12,488,391	12,488,391
Loans receivable, net of current maturities	--	383,044,310	383,044,310
Capital assets, net of accumulated depreciation	<u>61,487,556</u>	<u>259,376</u>	<u>61,746,932</u>
Total assets	\$ <u>366,317,091</u>	\$ <u>627,084,412</u>	\$ <u>993,401,503</u>
LIABILITIES			
Current liabilities			
Vouchers and contracts payable	\$ 42,679,724	\$ 372,273	\$ 43,051,997
Accrued wages and employee benefits payable	11,229,321	258,531	11,487,852
Unearned revenue	553,361	--	553,361
Accrued vacation, current portion	9,637,185	139,160	9,776,345
Workers' compensation liability	686,795	--	686,795
Due to other State agencies	26,367,863	--	26,367,863
Beverage container deposits	<u>1,864,042</u>	<u>--</u>	<u>1,864,042</u>
Total current liabilities	93,018,291	769,964	93,788,255
Accrued vacation, net of current portion	18,146,549	299,812	18,446,361
Other postemployment benefits	--	<u>1,865,594</u>	<u>1,865,594</u>
Total liabilities	<u>111,164,840</u>	<u>2,935,370</u>	<u>114,100,210</u>
NET POSITION			
Net investment in capital assets	61,487,556	259,376	61,746,932
Restricted for			
Loans	--	623,889,666	623,889,666
Trust fund programs	3,704,134	--	3,704,134
Medicaid programs	45,375,978	--	45,375,978
Unrestricted	<u>144,584,583</u>	<u>--</u>	<u>144,584,583</u>
Total net position	<u>255,152,251</u>	<u>624,149,042</u>	<u>879,301,293</u>
Total liabilities and net position	\$ <u>366,317,091</u>	\$ <u>627,084,412</u>	\$ <u>993,401,503</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2014**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General administration	\$ 41,626,262	\$ 1,597,002	\$ 16,898,108	\$ (23,131,152)	\$ --	\$ (23,131,152)
Environmental health administration	65,310,125	4,536,438	11,182,681	(49,591,006)	--	(49,591,006)
Behavioral health services administration	210,826,499	654,359	17,912,497	(192,259,643)	--	(192,259,643)
Health resources administration	<u>293,246,529</u>	<u>8,910,334</u>	<u>80,328,874</u>	<u>(204,007,321)</u>	<u>--</u>	<u>(204,007,321)</u>
Total governmental activities	611,009,415	15,698,133	126,322,160	(468,989,122)	--	(468,989,122)
Business-type activities						
Environmental health loan program	<u>9,148,098</u>	<u>5,632,994</u>	<u>30,893,107</u>	<u>--</u>	<u>27,378,003</u>	<u>27,378,003</u>
Total business-type activities	<u>9,148,098</u>	<u>5,632,994</u>	<u>30,893,107</u>	<u>--</u>	<u>27,378,003</u>	<u>27,378,003</u>
Total primary government	\$ <u>620,157,513</u>	\$ <u>21,331,127</u>	\$ <u>157,215,267</u>	(468,989,122)	27,378,003	(441,611,119)
General revenues						
State general fund allotments, net				411,119,657	--	411,119,657
Non-imposed employee fringe benefits				49,849,725	--	49,849,725
Environmental response tax				1,239,739	--	1,239,739
Deposit beverage container fee				23,940,632	--	23,940,632
Advance glass disposal fee				820,954	--	820,954
Tobacco tax				28,115,080	--	28,115,080
Hawaii tobacco settlement special fund				52,320,859	--	52,320,859
Transfers				<u>(46,658,183)</u>	<u>4,025,000</u>	<u>(42,633,183)</u>
Total general revenues and transfers				<u>520,748,463</u>	<u>4,025,000</u>	<u>524,773,463</u>
Change in net position				51,759,341	31,403,003	83,162,344
Net position at July 1, 2013				<u>203,392,910</u>	<u>592,746,039</u>	<u>796,138,949</u>
Net position at June 30, 2014				\$ <u>255,152,251</u>	\$ <u>624,149,042</u>	\$ <u>879,301,293</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014**

	<u>General</u>	<u>Hawaii Tobacco Settlement</u>	<u>Deposit Beverage Container Deposit</u>	<u>Other Funds</u>	<u>Total Governmental</u>
ASSETS					
Equity in cash and cash equivalents and investments in State Treasury	\$ --	\$ 23,924,453	\$ 20,428,262	\$ 127,127,653	\$ 171,480,368
Due from State Treasury	87,111,107	--	--	12,667,197	99,778,304
Due from other State agencies	--	--	--	2,757,000	2,757,000
Accrued interest receivable	--	--	--	77,318	77,318
Accounts receivable	--	--	1,447,690	--	1,447,690
Due from Federal government	--	--	--	3,988,855	3,988,855
Total assets	<u>\$ 87,111,107</u>	<u>\$ 23,924,453</u>	<u>\$ 21,875,952</u>	<u>\$ 146,618,023</u>	<u>\$ 279,529,535</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Vouchers and contracts payable	\$ 22,327,111	\$ 423,751	\$ 3,309,898	\$ 16,618,964	\$ 42,679,724
Accrued wages and employee benefits	8,536,015	139,230	37,435	2,516,641	11,229,321
Unearned revenue	--	--	--	553,361	553,361
Due to other State agencies	--	4,862,863	--	--	4,862,863
Beverage container deposits	--	--	1,864,042	--	1,864,042
Total liabilities	30,863,126	5,425,844	5,211,375	19,688,966	61,189,311
Deferred inflows of resources					
Unavailable revenues	--	--	181,207	2,153,000	2,334,207
Total deferred inflows of resources	--	--	181,207	2,153,000	2,334,207
Fund balances					
Restricted to					
Trust fund programs	--	--	--	3,704,134	3,704,134
Medicaid programs	--	--	--	43,222,978	43,222,978
Committed to					
Health resources administration	--	--	--	35,456,178	35,456,178
Environmental health administration	--	--	--	25,634,932	25,634,932
General administration	--	--	--	4,633,801	4,633,801
Tobacco settlement program	--	18,498,609	--	--	18,498,609
Deposit beverage container program	--	--	16,483,370	--	16,483,370
Capital projects activities	--	--	--	12,124,034	12,124,034
Assigned to					
Behavioral health administration	25,521,613	--	--	--	25,521,613
Health resources administration	17,541,581	--	--	--	17,541,581
General administration	13,184,787	--	--	--	13,184,787
Total fund balance	<u>56,247,981</u>	<u>18,498,609</u>	<u>16,483,370</u>	<u>124,776,057</u>	<u>216,006,017</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 87,111,107</u>	<u>\$ 23,924,453</u>	<u>\$ 21,875,952</u>	<u>\$ 146,618,023</u>	<u>\$ 279,529,535</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
RECONCILIATION OF THE GOVERNMENTAL FUNDS FUND BALANCE
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Total fund balance - governmental funds	\$ 216,006,017
Amounts reported for governmental activities in the statement of net assets are different because	
Tobacco settlement receivable (net of vouchers payable and Due to State of Hawaii amounts) is not available for current financial resources and therefore is not reported as an asset in the governmental funds.	3,795,000
Capital assets used in governmental activities are not financial resources and therefore not reported as an asset in the governmental funds.	61,487,556
Compensated absences reported in the statement of net position do not require the use of current financial resources and therefore are not reported as liabilities in the governmental funds.	(27,783,734)
Workers' compensation liability reported in the statement of net position does not require the use of current financial resources and therefore is not reported as a liability in the governmental funds.	(686,795)
Earned revenues not collected within 60 days and therefore not available for current financial resources reported as unavailable revenues in the governmental funds	<u>2,334,207</u>
Net position of governmental activities	\$ <u>255,152,251</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Hawaii Tobacco Settlement</u>	<u>Deposit Beverage Container Deposit</u>	<u>Other Funds</u>	<u>Total</u>
REVENUES					
State allotment, net	\$ 405,216,936	\$ --	\$ --	\$ 12,190,000	\$ 417,406,936
Intergovernmental	--	--	--	95,741,159	95,741,159
Hawaii tobacco settlement	--	52,320,859	--	--	52,320,859
Deposit beverage container deposit	--	--	23,759,425	--	23,759,425
Non-imposed employee fringe benefits	49,719,241	20,145	4,264	106,075	49,849,725
Taxes, fees, fines and other	--	--	--	70,934,334	70,934,334
Investment income	--	107	--	289,142	289,249
Total revenues	<u>454,936,177</u>	<u>52,341,111</u>	<u>23,763,689</u>	<u>179,260,710</u>	<u>710,301,687</u>
EXPENDITURES					
General administration	27,565,140	--	--	17,685,975	45,251,115
Environmental health	22,366,859	--	21,089,985	21,920,787	65,377,631
Behavioral health services	198,697,702	--	--	18,614,031	217,311,733
Health resources	<u>165,509,404</u>	<u>19,251,731</u>	--	<u>107,302,100</u>	<u>292,063,235</u>
Total expenditures	<u>414,139,105</u>	<u>19,251,731</u>	<u>21,089,985</u>	<u>165,522,893</u>	<u>620,003,714</u>
Excess of revenues over expenditures	40,797,072	33,089,380	2,673,704	13,737,817	90,297,973
OTHER FINANCING SOURCES (USES)					
Transfers in	--	12,916,489	--	76,234,858	89,151,347
Transfers out	<u>(25,362,357)</u>	<u>(45,093,936)</u>	--	<u>(62,484,822)</u>	<u>(132,941,115)</u>
Total other financing sources (uses)	<u>(25,362,357)</u>	<u>(32,177,447)</u>	--	<u>13,750,036</u>	<u>(43,789,768)</u>
Net change in fund balance	15,434,715	911,933	2,673,704	27,487,853	46,508,205
Fund balance at July 1, 2013	<u>40,813,266</u>	<u>17,586,676</u>	<u>13,809,666</u>	<u>97,288,204</u>	<u>169,497,812</u>
Fund balance at June 30, 2014	<u>\$ 56,247,981</u>	<u>\$ 18,498,609</u>	<u>\$ 16,483,370</u>	<u>\$ 124,776,057</u>	<u>\$ 216,006,017</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2014**

Net change in fund balance - total governmental funds	\$	46,508,205
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 those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation for the year.		7,658,321
Decrease in compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		469,766
Increase in the noncurrent portion of workers' compensation liability reported in the statement of activities do not require the use of current financials resources and therefore is not reported as an expenditure in the governmental funds.		(116,158)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		<u>(2,760,793)</u>
Change in net position of governmental activities	\$	<u><u>51,759,341</u></u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
GENERAL FUND - BUDGETARY COMPARISON STATEMENT
Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
REVENUES			
Current-year appropriations	\$ 417,029,126	\$ 425,630,440	\$ 414,954,540
Total revenues			
EXPENDITURES			
General administration	27,626,902	27,982,267	27,065,486
Environmental health administration	17,736,574	18,266,429	17,735,471
Behavioral health services administration	191,510,590	195,108,282	190,157,255
Health resources administration	<u>180,155,060</u>	<u>184,273,462</u>	<u>179,996,328</u>
Total expenditures	<u>417,029,126</u>	<u>425,630,440</u>	<u>414,954,540</u>
Excess of revenues over expenditures	\$ <u> --</u>	\$ <u> --</u>	\$ <u> --</u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii
HAWAII TOBACCO SETTLEMENT SPECIAL FUND -
BUDGETARY COMPARISON STATEMENT
Fiscal Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
REVENUES			
Current-year funds	\$ <u>58,996,418</u>	\$ <u>59,061,281</u>	\$ <u>52,308,615</u>
Total revenues			
EXPENDITURES			
Health resources administration	<u>58,996,418</u>	<u>59,061,281</u>	<u>52,428,567</u>
Total expenditures	<u>58,996,418</u>	<u>59,061,281</u>	<u>52,428,567</u>
Excess of expenditures over revenues	\$ <u> --</u>	\$ <u> --</u>	\$ <u> (119,952)</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
DEPOSIT BEVERAGE CONTAINER DEPOSIT SPECIAL FUND -
BUDGETARY COMPARISON STATEMENT
Fiscal Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>
REVENUES			
Current-year funds	\$ <u>87,295,331</u>	\$ <u>87,311,232</u>	\$ <u>59,658,362</u>
Total revenues			
EXPENDITURES			
Environmental health administration	<u>87,295,331</u>	<u>87,311,232</u>	<u>61,828,768</u>
Total expenditures	<u>87,295,331</u>	<u>87,311,232</u>	<u>61,828,768</u>
Excess of expenditures over revenues	\$ <u> --</u>	\$ <u> --</u>	\$ <u> (2,170,406)</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2014**

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 128,692,696	\$ 69,443,219	\$ 198,135,915
Loan fees receivable	275,967	638,962	914,929
Accrued interest receivable	497,298	77,600	574,898
Other accrued interest	107,492	58,591	166,083
Due from State Treasury	49,945	--	49,945
Due from federal government	47,782	54,961	102,743
Current portion of loans receivable	<u>25,870,376</u>	<u>5,477,446</u>	<u>31,347,822</u>
Total current assets	155,541,556	75,750,779	231,292,335
ARRA advances	12,488,391	--	12,488,391
Loans receivable, net of current portion	310,150,393	72,893,917	383,044,310
Capital assets, net of accumulated depreciation	<u>22,861</u>	<u>236,515</u>	<u>259,376</u>
Total assets	<u>\$ 478,203,201</u>	<u>\$ 148,881,211</u>	<u>\$ 627,084,412</u>
LIABILITIES			
Current liabilities			
Accounts payable and other accrued liabilities	<u>\$ 240,557</u>	<u>\$ 529,407</u>	<u>\$ 769,964</u>
Total current liabilities	240,557	529,407	769,964
Accrued vacation, net of current portion	194,717	105,095	299,812
Other postemployment benefits	<u>1,265,604</u>	<u>599,990</u>	<u>1,865,594</u>
Total liabilities	1,700,878	1,234,492	2,935,370
NET POSITION			
Net investment in capital assets	22,861	236,515	259,376
Restricted - expendable	<u>476,479,462</u>	<u>147,410,204</u>	<u>623,889,666</u>
Total net position	<u>476,502,323</u>	<u>147,646,719</u>	<u>624,149,042</u>
Total liabilities and net position	<u>\$ 478,203,201</u>	<u>\$ 148,881,211</u>	<u>\$ 627,084,412</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
Fiscal Year Ended June 30, 2014**

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
OPERATING REVENUES			
Interest income from loans	\$ 2,122,535	\$ 243,295	\$ 2,365,830
Administrative loan fees	<u>1,223,722</u>	<u>2,043,442</u>	<u>3,267,164</u>
Total revenues	3,346,257	2,286,737	5,632,994
EXPENSES			
Administrative	1,969,500	950,457	2,919,957
State program management	--	581,834	581,834
Water protection	--	1,687,143	1,687,143
Principal forgiveness for SRF	<u>2,000,000</u>	<u>1,959,164</u>	<u>3,959,164</u>
Total expenses	<u>3,969,500</u>	<u>5,178,598</u>	<u>9,148,098</u>
Operating loss	(623,243)	(2,891,861)	(3,515,104)
NONOPERATING REVENUES AND EXPENSES			
State contributions	2,200,000	1,825,000	4,025,000
Federal contributions	8,187,591	21,821,807	30,009,398
Federal ARRA contributions	290,208	--	290,208
Other interest income	<u>400,691</u>	<u>192,810</u>	<u>593,501</u>
Total nonoperating revenues and expenses	<u>11,078,490</u>	<u>23,839,617</u>	<u>34,918,107</u>
Change in net position	<u>10,455,247</u>	<u>20,947,756</u>	<u>31,403,003</u>
NET POSITION			
Beginning of year	<u>466,047,076</u>	<u>126,698,963</u>	<u>592,746,039</u>
End of year	\$ <u><u>476,502,323</u></u>	\$ <u><u>147,646,719</u></u>	\$ <u><u>624,149,042</u></u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Fiscal Year Ended June 30, 2014**

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash flows from operating activities			
Interest income from loans	\$ 2,129,787	\$ 227,760	\$ 2,357,547
Administrative loan fees	1,228,463	2,033,018	3,261,481
Principal repayments on loans	27,352,640	4,769,474	32,122,114
Disbursement of loan proceeds	(59,877,915)	(23,763,260)	(83,641,175)
Payments to employments	(1,550,764)	(958,392)	(2,509,156)
Payments to vendors	<u>(140,522)</u>	<u>(1,930,883)</u>	<u>(2,071,405)</u>
Net cash used in operating activities	(30,858,311)	(19,622,283)	(50,480,594)
Cash flows from noncapital financing activities			
State contributions	2,200,000	1,825,000	4,025,000
Federal contributions	8,125,594	22,259,217	30,384,811
Federal ARRA contributions	290,208	--	290,208
Disbursement of ARRA advances	<u>(290,208)</u>	<u>--</u>	<u>(290,208)</u>
Net cash provided by noncapital financing activities	10,325,594	24,084,217	34,409,811
Cash flows from capital and related financing activities			
Purchase of equipment	<u>(6,308)</u>	<u>(119,252)</u>	<u>(125,560)</u>
Net cash used in capital and related financing	(6,308)	(119,252)	(125,560)
Cash flows from investing activities			
Other interest income	<u>387,383</u>	<u>176,345</u>	<u>563,728</u>
Net cash provided by investing activities	<u>387,383</u>	<u>176,345</u>	<u>563,728</u>
Net (decrease) increase in cash	(20,151,642)	4,519,027	(15,632,615)
Equity in cash and cash equivalents and investments in State Treasury			
Beginning of year	<u>148,844,338</u>	<u>64,924,192</u>	<u>213,768,530</u>
End of year	\$ <u>128,692,696</u>	\$ <u>69,443,219</u>	\$ <u>198,135,915</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
Fiscal Year Ended June 30, 2014**

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating loss	\$ (623,243)	\$ (2,891,861)	\$ (3,515,104)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation expense	10,429	67,420	77,849
Principal forgiveness for SRF	2,000,000	1,959,164	3,959,164
Change in assets and liabilities			
Loan fees receivable	4,741	(10,424)	(5,683)
Accrued interest on loans receivables	7,252	3,474	10,726
Loans receivable	(32,525,275)	(18,993,786)	(51,519,061)
Due from State Treasury	(49,945)	--	(49,945)
Accounts payable and other accrued liabilities	175,766	152,563	328,329
Other postemployment benefits	<u>141,964</u>	<u>110,176</u>	<u>252,140</u>
Net cash used in operating activities	\$ <u>(30,858,311)</u>	\$ <u>(19,603,274)</u>	\$ <u>(50,461,585)</u>
Disclosure of noncash investing, capital, and financing activities			
In-kind contribution from the Environmental Protection Agency	\$ 115,807	\$ --	\$ 115,807

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
June 30, 2014**

ASSETS

Cash and cash equivalents	\$ <u>454,719</u>
Total assets	<u>454,719</u>

LIABILITIES

Due to others	<u>454,719</u>
Total liabilities	<u>454,719</u>

NET POSITION

\$ --

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) **Reporting Entity** - The State of Hawaii, Department of Health (the "Department"), administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. Federal grants received to support the State's health services and programs are administered by the Department.

The accompanying financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") prescribed by the Governmental Accounting Standards Board ("GASB").

The Department is part of the executive branch of the State of Hawaii ("State"). The financial statements of the Department are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type 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, 2014, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes the State's Comprehensive Annual Financial Report ("CAFR"), which includes the Department's financial activities.

Act 262, Session Laws of Hawaii of 1996, established the Hawaii Health Systems Corporation ("HHSC") as a public body corporate and politic and an instrumentality and agency of the State. HHSC consists of the state hospitals and was created to provide quality health care for all of the people in the State. HHSC commenced operations on July 1, 1996 and is administratively attached to the Department. However, HHSC is a component unit of the State and not the Department. HHSC's stand-alone financial statements are included in the State's CAFR but are not included in the Department's basic financial statements.

- (2) **Government-wide Financial Statements** - The government-wide statements of net position and activities 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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, related to interfund activities, receivables, and payables. All internal balances have been eliminated except those representing balances between

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

governmental and business-type activities, which are presented as internal balances and eliminated in the total department column when applicable. In the statement of activities, those transactions between governmental and business type activities have not been eliminated. In addition, the fiduciary funds account for net position held in a trustee or agent capacity for others. These funds are not reflected in the government-wide financial statements since these resources are not available to support the Department's programs.

- (3) ***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 end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the proprietary funds are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds and interest income from sources other than loans are reported as nonoperating revenues. Principal forgiveness for loans and ARRA advances are reported as operating expenses.

A description of the funds administered by the Department is as follows:

Governmental Funds (Governmental Activities)

General Fund - The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund presented is a part of the State's General Fund and is limited to only those appropriations and obligations of the Department.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds) and are included in Other Funds in the fund financial statements.

The Department accounts for governmental fund balances in accordance with GASB Statement No. 54 ("GASBS 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASBS 54's hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained in tact;

Restricted - amounts constrained to specific purposes by their providers (such as creditors, grantors or other governments) through constitutional provisions, or by enabling legislation;

Committed - amount constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;

Assigned - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government delegates the authority;

Unassigned - amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted balances are available for use, it is the Department's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted classifications can be used.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Propriety Funds (Business-Type Activities)

Enterprise Funds - Enterprise funds are used to account for the activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers or where sound financial management dictates that periodic determination of results of operations are appropriate.

Fiduciary Funds

Agency Funds - Agency funds are used to account for cash collected and disbursed by the Department in a custodial capacity.

- (4) ***Equity in Cash and Cash Equivalents and Investments in State Treasury*** - The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State which, in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as all of the Department's monies are held in the State cash pool, the Department does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the department level. The risk disclosures of the State's cash pool are included in the CAFR which may be obtained from the Department of Accounting and General Services' ("DAGS") website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

- (5) ***Due from State Treasury*** - The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the Department's general operating and capital appropriations. Although these appropriations are available to the Department to expend, custody of the funds remains with the State. Unspent general and capital appropriations that continue to be available to the Department for expenditure at the end of the fiscal year are reported as Due from State Treasury in the accompanying fund and government-wide financial statements.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

- (6) ***Due from Other State Agencies*** - Receivables due from other State agencies consist of reimbursements from the Department of Human Services (“DHS”) for Medicaid payments that the Department makes to providers of health services. The Department is responsible to pay the State portion of the Medicaid claims, and DHS reimburses the Department for the Federal portion of the claims. The receivable of \$2.8 million is comprised of various Medicaid rehabilitation option claims.

Payments made to providers and received from DHS for the Federal portion of the Medicaid claims are classified as expenditures and transfers in, respectively, for financial statement purposes.

- (7) ***Tobacco Settlement*** - In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately \$1.3 billion over a 25-year period. The Department is responsible for administering the Hawaii Tobacco Settlement Special Fund (“HTSSF”). The Department receives all tobacco settlement monies and then allocates and appropriates 75 percent of the funds to other State agencies and other entities in accordance with Hawaii Revised Statutes (“HRS”) 328L-2. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year.

The Department recognized approximately \$52.3 million in tobacco settlement revenues during the year ended June 30, 2014. In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Department has recorded a tobacco settlement receivable for \$25.3 million in the statement of net position representing tobacco settlements earned for the period January 1, 2014 through June 30, 2014.

- (8) ***ARRA Advances*** - The proprietary funds received American Recovery and Reinvestment Act (ARRA) stimulus money that was used to provide construction grants with no interest or loan fees and 100 percent principal forgiveness upon completion of approved projects. The proprietary funds are allowed to use a portion of the ARRA funds for specified purposes as set forth in the grant. ARRA funds provided to counties have been classified as “ARRA Advances” on the statement of net position upon disbursement. The ARRA advances will be completely forgiven and expensed once all the conditions and compliance requirements have been satisfied by the counties. If conditions and compliance requirements are not met, the grants will convert to loans, requiring repayment of principal, interest and loan fees.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

- (9) **Loan Receivable** - Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the proprietary funds. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. Beginning with federal fiscal year 2010, the capitalization grants allow for portions of loans to be forgiven upon satisfaction of certain requirements.
- (10) **Administrative Loan Fees** - The Department has implemented an administrative loan fee program to pay for the proprietary fund's administration, including employee salaries and benefits. The proprietary funds apply an administrative fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.
- (11) **Capital Assets** - Capital assets, which include buildings, furniture, and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the proprietary funds' financial statements. Capital assets are defined by the Department as those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land	All capitalized
Land improvements	\$100,000
Building and building improvements	\$100,000
Furniture and equipment	\$5,000

Such assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at estimated fair value at the time received. Depreciation expense is recorded in the government-wide and proprietary funds' financial statements using the straight-line method over the estimated useful lives of the assets. Generally, the useful lives (in years) are as follows:

	<u>Governmental- Type Activities</u>	<u>Business- Type Activities</u>
Land improvements	15	Not applicable
Building and building improvements	30	Not applicable
Furniture and equipment	5 - 7	5 - 7

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

- (12) **Unearned revenue** - Unearned revenues at the government-wide level and fund level arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet, and revenue is recognized. Unearned revenues at June 30, 2014 consisted primarily of Federal grant funds for which all eligibility requirements had not yet been met.
- (13) **Due to Other State Agencies** - Payables to other State agencies consist of funds allocated to other State agencies in accordance with the HTSSF. The amount allocated to other funds in accordance with the HTSSF is \$26.4 million.
- (14) **Beverage Container Deposits and Container Fees** - Deposits of \$0.05 are made by distributors to the deposit beverage container deposit special fund ("DBCDSF") for each qualifying container. The DBCDSF maintains all deposits until the redemption centers claim reimbursement for the deposits paid to consumers. The DBCDSF maintains the deposits that are expected to be redeemed. In addition, deposits of \$0.015 are made by the distributors to the DBCDSF for each qualifying container as a handling fee.

Amounts paid to consumers are based on containers redeemed or a predetermined weight per type of container redeemed (i.e., aluminum, mixed plastics, etc.). These weights are determined based on the mix of containers redeemed and are reviewed when necessary. Management adjusts the deposit liability balance and unredeemed deposit revenue recognized based on the amount of deposits refunded in the first three months of the subsequent fiscal year related to deposits collected prior to year end. Deposits not refunded within the first three months of the subsequent fiscal year are recognized as revenue for the previous year.

According to HRS 342G-104, any funds that accumulate in the DBCDSF shall be retained by the fund unless determined to be in excess by the Legislature.

- (15) **Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position and the balance and or the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Department does not have any items that qualify for reporting in this category.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

In addition to liabilities, the statement of net position and or the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has only one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- (16) **Accrued Vacation** - Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end and is convertible to pay upon termination of employment. As accrued vacation does not require the use of current financial resources, it is not reported in the governmental funds balance sheet.
- (17) **Accumulated Sick Leave** - Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2014, accumulated sick leave was approximately \$71.4 million.
- (18) **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 are recorded as operating transfers in the basic financial statements.
- (19) **Use of Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

- (20) **Encumbrances** - Encumbrance accounting, under which purchase orders and contractual commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Although appropriations generally lapse at year end, open encumbrances are reported as reservations of fund balances because the commitments will be honored when the goods or services are received. Encumbrances do not constitute expenditures or liabilities. Encumbrances at June 30, 2014 for the Department's governmental funds were approximately:

General	\$ 56,248,000
Hawaii tobacco settlement special fund	5,909,000
Deposit beverage container deposit special fund	7,480,000
Other funds	<u>12,725,000</u>
Total	\$ <u>82,362,000</u>

- (21) **Use of Restricted and Unrestricted Net Position** - When an expense is incurred for which both restricted and unrestricted net position is available, the Department's policy is to apply restricted net position first.
- (22) **Nonmonetary Transactions** - The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$14,092,000 in vaccines in fiscal year 2014.
- (23) **Administrative Costs** - DAGS assesses the Department's special funds centralized and administrative service fees, which are recorded as direct expenditures in the Department's funds.

Effective for fiscal year 2014, the Deposit Beverage Container Deposit Special Fund is exempted from paying the central service fee assessed by DAGS under ACT 228, SLH 2013.

- (24) **New Accounting Pronouncements** - Effective for the year ended June 30, 2014, the Department adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASBS 65"). The objective of GASBS 65 is to reclassify certain assets and liabilities as deferred outflows of resources and deferred inflow of resources and recognizes certain assets and liabilities as outflows of resources or inflows of resources. The adoption of GASBS 65 did not have a material effect on the Department's financial statements.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Effective for the year ended June 30, 2014, the Department adopted GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10. and No. 62* ("GASBS 66"). The objective of this GASBS 66 is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASBS 54 and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The adoption of GASBS 66 did not have a material effect on the Department's financial statements.

Effective for the year ended June 30, 2014, the Department adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASBS 70"). This objective of GASBS 70 is to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. GASBS 70 also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees as well as augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The adoption of GASBS 70 did not have a material effect on the Department's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* ("GASBS 68"). The objective of GASBS 68 is to establish accounting and financial reporting requirements for pensions of governments. The requirements of GASBS 68 are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect GASBS 68 will have on the Department's financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* ("GASBS No. 71"). The objective of GASBS 71 is to improve accounting and financial reporting by addressing an issue in GASBS 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of GASBS 68 by employers and nonemployer contributing entities. The requirements for GASBS 71 are effective for periods beginning after June 15, 2014. Management has not yet determined the effect GASBS 71 will have on the Department's financial statements.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE B - BUDGETING AND BUDGETARY CONTROL

The Department follows these procedures in establishing the budgetary data reflected in the basic financial statements:

The Budget - Not less than 20 days before the State Legislature convenes in every odd-numbered year, the Governor submits to the State Legislature, and to each member thereof, a budget which contains the program and budget recommendation of the Governor for the succeeding biennium. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next biennium to carry out the recommended programs; a summary of State receipts and revenues in the last completed fiscal year; a revised estimate for the fiscal year in progress; and an estimate for the succeeding biennium.

Legislative Review - The State Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as will assist in determining the State's program and financial plan and budget.

Program Execution - Except as limited by policy decisions of the Governor, appropriations by the State Legislature, and other provisions of law, the agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the State Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the State Legislature.

Budgetary control is maintained at the appropriation line item level established in the appropriation acts.

Budgets are adopted for the Department's funds and are prepared on the cash basis of accounting, except for the encumbrance of purchase orders and contract obligations (basis difference), which is a basis of accounting other than GAAP.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE B - BUDGETING AND BUDGETARY CONTROL (Continued)

Since budgetary basis differs from GAAP, budget and actual amounts in the budgetary comparison statements are presented on the budgetary basis. A reconciliation of revenues over expenditures (expenditures over revenues) on a budgetary basis at June 30, 2014, to excess of revenues over expenditures presented in conformity with GAAP follows:

	<u>General</u>	<u>Hawaii Tobacco Settlement</u>	<u>Deposit Beverage Container Deposit</u>
Excess of revenues over expenditures (expenditures over revenues) - actual on a budgetary basis	\$ --	\$ (119,952)	\$ (2,170,406)
Reserve for encumbrances at year end	56,247,981	5,908,706	7,480,093
Expenditures for liquidation of prior year's encumbrances	(70,994,637)	(5,372,654)	(8,927,423)
Accruals and other adjustments	<u>55,543,728</u>	<u>32,673,280</u>	<u>6,291,440</u>
Excess of revenues over expenditures - GAAP basis	\$ <u>40,797,072</u>	\$ <u>33,089,380</u>	\$ <u>2,673,704</u>

NOTE C - LOAN RECEIVABLE

At June 30, 2014, the proprietary funds loans receivable consisted of loans to county governmental units for the water pollution control and drinking water treatment programs. The loans require annual, semi-annual or quarterly payments, including interest at 0.00 percent to 3.02 percent, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion. In fiscal year 2014, \$3,959,164 in loans were forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$575,000 at June 30, 2014.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2014:

<u>Year ending June 30,</u>	
2015	\$ 31,347,822
2016	31,299,810
2017	30,775,938
2018	30,564,750
2019	29,595,777
Thereafter	<u>260,808,035</u>
	\$ <u>414,392,132</u>

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ <u>1,018,080</u>	\$ <u> --</u>	\$ <u> --</u>	\$ <u>1,018,080</u>
Total capital assets not being depreciated	1,018,080	--	--	1,018,080
Capital assets, being depreciated				
Land improvements	3,110,581	194,185	--	3,304,766
Building and building improvements	146,523,651	12,414,114	--	158,937,765
Furniture and equipment	<u>22,753,579</u>	<u>1,633,407</u>	<u>(2,529,348)</u>	<u>21,857,638</u>
Total capital assets being depreciated	172,387,811	14,241,706	(2,529,348)	184,100,169
Less: Accumulated depreciation				
Land improvements	1,987,693	128,487	--	2,116,180
Building and building improvements	99,470,933	2,989,518	--	102,460,451
Furniture and equipment	<u>18,118,030</u>	<u>2,101,622</u>	<u>(1,165,590)</u>	<u>19,054,062</u>
Total accumulated depreciation	<u>119,576,656</u>	<u>5,219,627</u>	<u>(1,165,590)</u>	<u>123,630,693</u>
Governmental activities capital assets, net	\$ <u>53,829,235</u>	\$ <u>9,022,079</u>	\$ <u>(1,363,758)</u>	\$ <u>61,487,556</u>
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	\$ <u>1,315,199</u>	\$ <u>125,560</u>	\$ <u> --</u>	\$ <u>1,440,759</u>
Total capital assets being depreciated				
Less: Accumulated depreciation for equipment				
	<u>1,103,534</u>	<u>77,849</u>	<u> --</u>	<u>1,181,383</u>
Total accumulated depreciation	<u>1,103,534</u>	<u>77,849</u>	<u> --</u>	<u>1,181,383</u>
Business-type activities capital assets, net	\$ <u>211,665</u>	\$ <u>47,711</u>	\$ <u> --</u>	\$ <u>259,376</u>

Current period depreciation expense was charged to functions as follows:

Governmental activities	
General administration	\$ 556,240
Environmental health	494,428
Behavioral health services	1,418,056
Health resources	<u>2,750,903</u>
Total depreciation expense - governmental activities	\$ <u>5,219,627</u>
Business-type activities	
Environmental health	\$ <u>77,849</u>
Total depreciation expense - business-type activities	\$ <u>77,849</u>

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE E - ACCRUED VACATION

The changes to the accrued vacation liability during 2014 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Balance at July 1, 2013	\$ 28,253,500	\$ 429,459
Increase	11,696,829	189,717
Decrease	<u>(12,166,595)</u>	<u>(180,204)</u>
Balance at June 30, 2014	27,783,734	438,972
Less: Current portion	<u>9,637,185</u>	<u>139,160</u>
Noncurrent portion	\$ <u>18,146,549</u>	\$ <u>299,812</u>

NOTE F - BEVERAGE CONTAINER DEPOSITS

The changes to the beverage container deposit liability during 2014 were as follows:

Balance at July 1, 2013	\$ 1,931,621
Increase: Deposits received from distributor	46,686,419
Decrease: Payments made to redemption centers, net of refunds	(36,930,958)
Decrease: Unredeemed deposits recognized as revenue	<u>(9,823,040)</u>
Balance at June 30, 2014	\$ <u>1,864,042</u>

NOTE G - CHANGES IN ASSETS AND LIABILITIES OF THE AGENCY FUNDS

The agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The changes in assets and liabilities of the agency funds for the fiscal year ended June 30, 2014, were as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>
Assets				
Cash and cash equivalents	\$ <u>430,253</u>	\$ <u>223,010</u>	\$ <u>198,544</u>	\$ <u>454,719</u>
Liabilities				
Due to others	\$ <u>430,253</u>	\$ <u>223,010</u>	\$ <u>198,544</u>	\$ <u>454,719</u>

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE H - NON-IMPOSED EMPLOYEE FRINGE BENEFITS

Non-imposed employee fringe benefits related to general and State special fund salaries are funded by the State. These costs, totaling approximately \$49.9 million for the fiscal year ended June 30, 2014, have been reported as revenues and expenditures of the Department's general and State special revenue funds.

Payroll fringe benefit costs related to Federally-funded salaries are not funded by the State and are recorded as expenditures in the Federal special revenue funds.

NOTE I - EMPLOYEE BENEFIT PLANS

Substantially all employees of the Department participate in the State's various employee benefit plans, including the ERS, post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State ERS' CAFR. The State's CAFR can be found on the DAGS website. The ERS CAFR can be found at the ERS website: <https://ers.ehawaii.gov/resources/financials>.

Employees' Retirement System

The ERS is a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action. Contributions made to the plan were \$23.0 million, \$21.4 million, and \$21.1 million for the fiscal years ended June 30, 2014, 2013, and 2012, respectively.

Post-Employment Healthcare and Life Insurance Benefits

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

State Policy

The actuarial valuation of the EUTF does not provide other postemployment benefits ("OPEB") information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution ("ARC"), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the proportionate share of the State's total covered employee headcount by each component unit or proprietary fund for retiree health benefits.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE I -EMPLOYEE BENEFIT PLANS (Continued)

Annual OPEB Cost

The components of the allocated annual OPEB cost (annual required contribution, interest on net OPEB obligation, and adjustment to annual required contribution) are insignificant to the Department's two proprietary funds. The following table shows the allocated annual OPEB cost that has been allocated to the two proprietary funds of the Department for the year ended June 30, 2014:

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Annual OPEB cost	\$ 253,980	\$ 179,280	\$ 433,260
Less: Contributions made	<u>(112,016)</u>	<u>(69,104)</u>	<u>(181,120)</u>
Increase in net OPEB obligation	141,964	110,176	252,140
Net OPEB obligation, beginning of year	<u>1,123,640</u>	<u>489,814</u>	<u>1,613,454</u>
Net OPEB obligation, end of year	\$ <u><u>1,265,604</u></u>	\$ <u><u>599,990</u></u>	\$ <u><u>1,865,594</u></u>

Amount of Contributions Made

Contributions are financed on a pay-as-you-go basis and the Department's contributions for the years ended June 30, 2014, 2013, and 2012 were approximately \$3.4 million, \$3.2 million, and \$2.5 million.

Required Supplementary Information and Disclosures

The State's CAFR includes the required disclosures and supplementary information on the State's OPEB plan.

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 an 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 has the duty of due care that would be required of an ordinary prudent investor.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE J - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Department leases various office facilities and equipment through fiscal year 2020 on a long-term basis as provided for in the lease agreements. The following is a schedule of minimum future rent payments on noncancelable operating leases at June 30, 2014:

Year ending June 30,	
2015	\$ 449,000
2016	362,000
2017	196,000
2018	77,000
2019	77,000
Thereafter	58,000
	\$ <u>1,219,000</u>

Rental expenditures for the fiscal year ended June 30, 2014 approximated \$2,486,000.

Insurance Coverage

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, 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. At June 30, 2014, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund.

The Department's portion of the State's workers' compensation expenditures for the year ended June 30, 2014 were approximately \$377,000 and \$54,000 for the general fund and other funds, respectively.

Litigation

The Department is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Department's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State's General Fund.

**Department of Health
State of Hawaii
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014**

NOTE J - COMMITMENTS AND CONTINGENCIES (Continued)

Ceded Lands

The Office of Hawaiian Affairs (OHA) and the State are involved in litigation regarding the State's alleged failure to properly account for and pay to OHA monies due to OHA under the provisions of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes for use by the State of certain ceded lands. The ultimate outcome of this matter is still unknown. Full discussion of this matter and other legal matters between OHA and the State are disclosed in the State's CAFR.

SUPPLEMENTARY INFORMATION

**Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services				
Direct Programs				
TB Epidemiological Studies Consortium	626	200-2011-41277	\$ 293,581	\$ --
Special Programs for Aging - Title VII Chapter 3	468	93.041	9,563	
Special Programs for Aging - Title VII Chapter 2	468	93.042	71,854	--
Special Programs for Aging - Title III Part D	401	93.043	108,196	108,196
Special Programs for Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	2,564,654	2,461,689
Special Programs for Aging - Title III Part C - Nutrition Services	401	93.045	1,933,903	1,459,344
Nutrition Services Incentive Program	406	93.053	<u>352,811</u>	<u>352,811</u>
Subtotal Aging Cluster			<u>4,851,368</u> *	<u>4,273,844</u>
Special Programs for Aging - Title IV and Title II - Discretionary Projects	405, 478, 628	93.048	402,135	25,494
National Family Caregiver Support, Title III, Part E	401	93.052	703,432	703,432
Public Health Emergency Preparedness	1297	93.069	5,094,574 *	--
Environmental Public Health and Emergency Response	444	93.070	290,903	285,456
Hawaii's Lifespan Respite Care Program	627	93.072	77,128	--
Emergency System for Advance Registration of Volunteer Health Professionals	588	93.089	162,466	--
Personal Responsibility Education Program Grant	613	93.092	141,141	64,832
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	589, 632	93.104	1,922,107	--
Maternal and Child Health Federal Consolidated Programs	257, 307, 466	93.110	765,301	--
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	741,057	--
Emergency Medical Services for Children	388, 392	93.127	20,381	--
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	298	93.130	158,649	--
Injury Prevention and Control Research and State and Community Based Programs	278, 343	93.136	276,016	--
Projects for Assistance in Transition from Homelessness	24208, 25208	93.150	89,769	89,769
Program for Infants and Toddlers with Handicaps	285	93.200	128,655	--
Hansen's Disease National Ambulatory Care Program	264	93.215	929,889	--
Family Planning - Services	239	93.217	2,268,988	1,810,635
Abstinence Education Program	273	93.235	109,051	108,985
State Rural Hospital Flexibility Program	415	93.241	344,365	--
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	various	93.243	911,859	--
Universal Newborn Hearing Screening	416	93.251	128,319	--
Immunization Cooperative Agreements	457	93.268	16,728,156 *	--

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services (Continued)				
Adult Viral Hepatitis Prevention and Control	397	93.270	\$ 85,189	\$ --
Substance Abuse and Mental Health Services - Access to Recovery	396	93.275	3,785,084 *	3,472,275
Centers for Disease Control and Prevention - Investigations and Technical Assistance	various	93.283	2,149,844	1,542,343
State Partnership Grant Program to Improve Minority Health	611	93.296	43,486	--
Small Rural Hospital Improvement Grant Program	454	93.301	48,600	--
State Health Insurance Assistance Program	403	93.324	217,534	--
Food Safety and Security Monitoring Project	580	93.448	231,305	--
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	602, 629	93.505	3,790,679 *	3,312,373
PPHF National Public Health Improvement Initiative	285, 615	93.507	929,180	--
ELC/EIP - Prevention and Public Health Fund and Other Capacity-Building Activities	607	93.521	922,933	--
Prevention and Public Health Fund Affordable Care Act - Immunization Program	624	93.539	110,678	--
Coordinated Chronic Disease Prevention and Health Promotion Program	631	93.544	226,194	237,191
Community-Based Child Abuse Prevention Grants	270	93.590	381,474	252,487
Development Disabilities Basic Support and Advocacy Grants	240	93.630	422,634	--
ARRA - Prevention and Wellness - State, Territories and Pacific Islands	593	93.723	22,800	18,194
ARRA - Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement	604	93.724	24,211	20,856
PPHF: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by Prevention and Public Health Funds	640	93.744	37,893	37,893
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	221, 380, 387	93.777	1,660,054	--
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	590	93.779	204,144	161,014
National Bioterrorism Hospital Preparedness Program	435	93.889	2,150,834	1,808,949
Grants to States for Operation of Offices of Rural Health	299	93.913	143,387	--
HIV Care Formula Grants	293	93.917	2,807,152	2,079,529
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Early Detection programs	448	93.919	1,109,190	1,109,190
Healthy Start Initiative	286	93.926	338,726	185,300

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services (Continued)				
HIV Prevention Activities - Health Department Based	266	94.940	\$ 1,420,854	\$ 447,923
HIV / AIDS Surveillance	272	93.944	186,439	--
Assistance Programs for Chronic Disease Prevention and Control	647, 648	93.945	384,918	384,918
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	146,581	--
Block Grants for Community Mental Health Services	30202, 31202, 32202	93.958	1,224,796	341,133
Block Grants for Prevention and Treatment of Substance Abuse	31204, 32204	93.959	8,028,787 *	7,617,291
Prevention Health Services - Sexually Transmitted Diseases Control Grants	268	93.977	391,783	--
Preventative Health and Health Services Block Grant	30203, 31203, 32203	93.991	434,387	3,333
Maternal and Child Health Services Block Grant	31201, 32201, 33201	93.994	1,748,467	22,701
Hawaii Tobacco State Enforcement Contract	633	93.FAR 52.217-9	186,498	90,224
Special Project of National Significance	651	93.928	<u>96,800</u>	<u>--</u>
Total Department of Health and Human Services			<u>73,822,418</u>	<u>30,615,760</u>
U.S. Department of Agriculture				
Direct Program				
Food Safety Cooperative Agreements	203	10.479	125,003	--
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295	10.557	31,818,727 *	2,717,862
ARRA- WIC Grants to States	587	10.578	<u>12,152</u>	<u>--</u>
Total Department of Agriculture			<u>31,955,882</u>	<u>2,717,862</u>
Environmental Protection Agency				
Direct Program				
Air Pollution Control Program Support	233	66.001	781,065	--
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	81,562	--
State Clean Diesel Grant Program	328	66.040	138,877	131,417
Water Pollution Control State, Interstate, and Tribal Program Support	231, 237, 601	66.419	1,940,526	177,524
State Public Water System Supervision	232	66.432	479,948	--
Water Quality Management Program	15284, 16284	66.454	100,089	--

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
Environmental Protection Agency (Continued)				
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	\$ 8,071,785	\$ 7,514,491
ARRA - Capitalization Grants for Clean Water State Revolving Funds	483	66.458	<u>290,208</u>	<u>290,208</u>
Subtotal Capitalization Grants for Clean Water State Revolving Funds			8,361,993 *	7,804,699
Nonpoint Source Implementation Grants	8290, 9290	66.460	1,037,370	564,936
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	21,830,752 *	20,628,395
Beach Monitoring and Notification Program	8291	66.472	277,157	--
Environmental Information Exchange Grant Program	395, 570	66.608	264,393	--
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	155,234	--
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	330	66.707	222,235	--
Hazardous Waste Management State Program Support	230	66.801	517,172	--
Superfund State Site Specific Cooperative Agreements	394	66.802	284,841	--
State Underground Storage Tanks Program	339	66.804	165,774	--
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	575,106	--
State and Tribal Response Program Grants	360	66.817	<u>1,185,037</u>	<u>--</u>
Subtotal Direct Programs			<u>38,399,131</u>	<u>29,306,971</u>
Pass-through from the National Oceanic and Atmospheric Administration				
Marine Debris Removal and Restoration	645	66.UNKNOWN	<u>250,000</u>	<u>--</u>
Subtotal Pass-through Programs			<u>250,000</u>	<u>--</u>
Total Environmental Protection Agency			<u>38,649,131</u>	<u>29,306,971</u>
U.S. Department of Education				
Direct Program				
Special Education - Grants for Infants and Families	213	84.181A	<u>1,717,191</u>	<u>250,000</u>
Total Department of Education			<u>1,717,191</u>	<u>250,000</u>
U.S. Department of Commerce				
Direct Program				
Habitat Conservation	643	11.463	<u>19,450</u>	<u>19,450</u>
Total Department of Commerce			<u>19,450</u>	<u>19,450</u>

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Defense				
Direct Program				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	\$ <u>316,211</u>	\$ <u>--</u>
Total Department of Defense			<u>316,211</u>	<u>--</u>
U.S. Department of Justice				
Direct Program				
Enforcing Underage Drinking Laws Program	458	16.727	<u>292,050</u>	<u>292,382</u>
Total Department of Justice			<u>292,050</u>	<u>292,382</u>
U.S. Department of Transportation				
Pass-through from the State Department of Transportation				
Hazardous Materials Public Sector Training and Planning Grants	641	20.703	<u>127,135</u>	<u>--</u>
Total Department of Transportation			<u>127,135</u>	<u>--</u>
Total Expenditures of Federal Awards			\$ <u>146,899,468</u>	\$ <u>63,202,425</u>

* Denotes Major Federal Program

The accompanying notes are an integral part of this schedule.

**Department of Health
State of Hawaii
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Hawaii, Department of Health (the "Department"), and is presented on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - LOANS OUTSTANDING

The Department had the following loan balances outstanding at June 30, 2014. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	CFDA Number	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 23,600,680
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 25,234,725

NOTE C - NONCASH AWARDS

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$14,092,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2014.