

**Department of Health
State of Hawaii**

Financial Statements
June 30, 2020
Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 30, 2021

Mr. Leslie Kondo, State Auditor
Office of the Auditor
State of Hawaii

Dear Mr. Kondo:

This is our report on the financial audit of the Department of Health, the State of Hawaii (Department) as of and for the fiscal year ended June 30, 2020. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Government Auditing Standards, Audits of States, Local Governments, and Non-Profit Organizations.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form opinions on the fairness of the presentation of the Department's basic financial statements as of and for the fiscal year ended June 30, 2020, and to comply with the requirements of the Uniform Guidance. The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Department's basic financial statements, including whether the schedule of expenditures of federal awards is fairly stated in relation to the financial statements.
2. To consider the Department'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 on the Department'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 Department'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 a basis for opinions on the Department's compliance with applicable laws, regulations, contracts, and grants that could have a direct and material effect on each major federal program.

SCOPE OF THE AUDIT

Our audit was performed 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 the Uniform Guidance. The scope of our audit included an examination of the transactions and accounting records of the Department for the fiscal year ended June 30, 2020.

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 Department as of and for the fiscal year ended June 30, 2020, and our opinion on the basic financial statements.
- 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 Department.

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

Sincerely,



Wilcox Choy
Partner

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PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Office of 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 Department of Health, State of Hawaii (Department), as of and for the fiscal year ended June 30, 2020, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, 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, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective 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 Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and, where applicable, its 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, 2020, the changes in 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.

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards, as required by the Office of Management and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 30, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 30, 2021, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is May 7, 2021.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2020

This Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities and performance of the Department of Health, State of Hawaii (the Department) during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the Department's financial statements and the related notes to the basic financial statements (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, consists 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, deferred outflows, liabilities and deferred inflows, with the difference 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, taxes, and other fees.
- *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.

Department of Health State of Hawaii

Management Discussion and Analysis
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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, beverage container deposit program collections, mental health and substance abuse, 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, deposit beverage container deposit special fund and mental health substance abuse 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.

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.

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Management Discussion and Analysis
June 30, 2020

- *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 \$1,123.5 million as of June 30, 2019 to \$1,161.9 million as of June 30, 2020, or by approximately \$38.4 million. The total increase in net position was attributed to increases in the Department's governmental activities net position of \$10.8 million and business-type activities' net position of \$27.6 million during the year.

The Department's governmental activities reported an aggregate increase in net position of approximately \$10.8 million during the year totaling \$388.7 million at June 30, 2020. Note that this is based on the net position at June 30, 2019 of \$377.9 million.

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of \$27.6 million for fiscal year (FY) 2020. Total net position was \$745.6 million at June 30, 2019 compared to \$773.2 million at June 30, 2020.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2020

Government-Wide Financial Analysis

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

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

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current assets	\$ 423,774	\$ 415,650	\$ 173,158	\$ 248,617	\$ 596,932	\$ 664,267
Capital assets	107,693	110,402	1,154	1,429	108,847	111,831
Loans receivable, noncurrent	-	-	612,023	507,895	612,023	507,895
Total assets	531,467	526,052	786,335	757,941	1,317,802	1,283,993
Deferred outflows of resources	-	-	1,996	2,128	1,996	2,128
Current liabilities	120,969	129,737	877	668	121,846	130,405
Long term liabilities	21,796	18,366	13,648	13,137	35,444	31,503
Total liabilities	142,765	148,103	14,525	13,805	157,290	161,908
Deferred inflows of resources	-	-	588	664	588	664
Net position						
Net investment in capital assets	107,693	110,402	1,154	1,428	108,847	111,830
Restricted	72,781	63,928	772,064	744,172	844,845	808,100
Unrestricted	208,228	203,619	-	-	208,228	203,619
Total net position	\$ 388,702	\$ 377,949	\$ 773,218	\$ 745,600	\$ 1,161,920	\$ 1,123,549

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, 2020, the Department's total net position was approximately \$1,161.9 million.

Department of Health State of Hawaii

Management Discussion and Analysis June 30, 2020

At June 30, 2020, in addition to equity in cash and cash equivalents in the state treasury approximating \$518.1 million, the Department had total loans receivable from county governments in the amount of \$660.7 million arising from its two revolving loan funds. The Department had total liabilities of \$157.3 million at June 30, 2020 of which \$15.2 million relates to accrued wages and employee benefits payable. Approximately \$53.4 million in liabilities relate to vouchers and contracts payable. At June 30, 2020, restricted net position was \$844.8 million. The restrictions arise from legal and contractual agreements.

Condensed Statement of Activities (\$000) June 30,

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue:						
Program revenues:						
Charges for services	\$ 33,349	\$ 22,499	\$ 6,512	\$ 5,692	\$ 39,861	\$ 28,191
Operating grants and contributions	126,549	127,517	27,602	26,813	154,151	154,330
General revenues:						
State appropriated funds	510,858	492,535	-	-	510,858	492,535
Non-imposed fringe benefits	88,542	90,812	-	-	88,542	90,812
Hawaii tobacco settlement special fund	34,959	34,452	-	-	34,959	34,452
Environmental fees and taxes	51,368	50,494	-	-	51,368	50,494
Total revenues	845,625	818,309	34,114	32,505	879,739	850,814
Expenditures:						
General administration	50,359	50,079	-	-	50,359	50,079
Environmental health administration	80,996	72,373	11,204	8,871	92,200	81,244
Behavioral health services administration	374,840	385,373	-	-	374,840	385,373
Health resources administration	291,584	284,000	-	-	291,584	284,000
Total expenditures	797,779	791,825	11,204	8,871	808,983	800,696
Excess before transfers	47,846	26,484	22,910	23,634	70,756	50,118
Transfers	(37,093)	6,361	4,708	3,702	(32,385)	10,063
Change in net position	10,753	32,845	27,618	27,336	38,371	60,181
Net position:						
Beginning of year	377,949	345,104	745,600	718,264	1,123,549	1,063,368
End of year	\$ 388,702	\$ 377,949	\$ 773,218	\$ 745,600	\$1,161,920	\$1,123,549

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2020

Governmental activities increased the Department's net position by \$10.8 million in FY 2020, which was a 2.8 percent increase from FY 2019. The overall increase in governmental activities is the result of higher revenues from several areas. General revenues of state appropriated funds increased by \$18.3 million and charges for services increased by \$10.9 million.

Revenues of the Department's business-type activities, which increased by \$1.6 million from 2019, consist of the Department's environmental loan programs, one for water pollution control and the other for drinking water treatment. These revenues 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, 2020, business-type activities increased the Department's net position by \$27.6 million to \$773.2 million as compared to the fiscal year ended June 30, 2019.

Total government-wide expenditures for FY 2020 were \$809.0 million of which \$797.8 million was for governmental activities. As compared to FY 2019, total government-wide expenditures were \$800.7 million of which \$791.8 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended 47.0 percent or \$374.8 million of departmental funds with a decrease of \$10.5 million compared to FY 2019. 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 which includes seven Family Guidance Centers and the Family Court Liaison Branches;
- Alcohol and Drug Abuse Division which plans for and purchases substance abuse prevention and treatment services for adolescents and adults; and
- Developmental Disabilities Division that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement.

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2020

The Department's Health Resources Administration expended approximately 36.5 percent of Department funds. FY 2020 expenses for this Administration increased by \$7.6 million compared to FY 2019. Major programs in this administration include:

- Chronic Disease Prevention & Health Promotion Division strives to promote wellness and improve the quality and years of life for Hawaii's people through effective prevention, detection and management of chronic diseases;
- Communicable Disease and Public Health Nursing Division which strives to reduce morbidity and mortality from communicable diseases in Hawaii, to improve the health of individuals and communities, and to support the Medical Marijuana Registry program;
- 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;
- Emergency Medical Services and Injury Prevention System Branch 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;
- Family Health Services Division 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; and
- Office of Health Care Assurance (OHCA) which manages the state licensing and Federal certification of medical and health care facilities, agencies, and services provided throughout the State in order to ensure acceptable standards of care provided and to ensure compliance with State and Federal requirements. OHCA is also responsible for the rollout and management of the Medical Marijuana Dispensaries.

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 10.2 percent of the departmental funds with an increase of \$8.6 million expended versus FY 2019 on a government-wide basis. This administration also manages both the Water Pollution Control Revolving and the Drinking Water Treatment Revolving Loan Funds.

Finally, the Department's General Administration provides the overall leadership and oversight for the Department. It includes administrative support staff, three district health offices, and six administratively attached agencies. This administration expended approximately 6.3 percent of the departmental funds.

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Management Discussion and Analysis
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Governmental Funds Financial Analysis

The following table presents revenues and expenditures of the governmental funds for FY2020 and FY2019 (\$000):

	<u>2020</u>	<u>2019</u>
Revenues:		
State general fund allotments	\$ 510,859	\$ 492,535
Intergovernmental	118,257	108,849
Non-imposed fringe benefits	88,542	90,812
Taxes, fees, fines and other	63,192	63,817
Hawaii tobacco settlement special fund	34,959	34,452
Deposit beverage container deposit special fund	26,786	24,820
Investment income	4,537	4,164
	<hr/>	<hr/>
Total revenues	847,132	819,449
Expenditures:		
General administration	47,342	45,621
Environmental health	81,473	72,136
Behavioral health services	373,348	383,804
Health resources	289,487	282,729
	<hr/>	<hr/>
Total expenditures	791,650	784,290
	<hr/>	<hr/>
Excess of revenues over expenditures before transfers	<u>\$ 55,482</u>	<u>\$ 35,159</u>

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, 2020, general fund revenues were \$592.6 million, including \$88.5 million for fringe benefits paid directly from the State general fund. General fund expenditures were \$581.6 million.

In FY 2020, the DBCDSF earned revenues of \$26.8 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, \$21.9 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected \$48.7 million in deposits from distributors and repaid \$30.7 million in deposits to consumers during FY 2020.

Department of Health State of Hawaii

Management Discussion and Analysis
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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 2020, WPCRF received \$8.9 million and \$2.5 million of federal and state funds, respectively. WPCRF also disbursed \$130.8 million in loan proceeds and collected \$32.0 million in principal repayments in 2020. As compared to 2019, the fund collected \$14.2 million and \$2.1 million in federal and state contributions, respectively, disbursed \$40.8 million in loan proceeds, and collected \$31.2 million in principal payments.

The DWTRLF accounts for federal and state 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 2020, DWTRLF received \$14.8 million and \$2.2 million of federal and state funds, respectively. DWTRLF also disbursed \$28.3 million in loan proceeds and collected \$11.4 million in principal repayments in 2020. As compared to 2019, the DWTRLF collected \$8.3 million and \$1.6 million in federal and state contributions, respectively, disbursed \$26.8 million in loan proceeds, and collected \$13.8 million in principal payments.

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

Department of Health State of Hawaii

Management Discussion and Analysis
June 30, 2020

Budgetary Analysis

The following budget information relates to the general fund, deposit beverage container deposit special fund, mental health substance abuse special fund and tobacco settlement special fund for 2020:

	Budgeted Amounts (\$000)		Actual on a Budgetary
	Original	Final	Basis (\$000)
General fund			
Revenues	\$ 522,615	\$ 522,719	\$ 510,464
Expenditures			
General administration	33,312	32,312	30,352
Environmental health	27,001	27,005	25,293
Behavioral health	303,979	304,052	300,242
Health resources	159,323	159,351	154,577
Deposit beverage container deposit special fund			
Revenues	71,207	71,207	58,455
Expenditures	71,207	71,207	69,973
Mental health substance abuse fund			
Revenues	11,610	11,610	7,867
Expenditures	11,610	11,610	7,708
Tobacco settlement special fund			
Revenues	48,626	48,626	35,677
Expenditures	48,626	48,626	48,626

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The deposit beverage container program recognized revenues on a budgetary basis of \$58.5 million, which is based on the actual number of containers sold. In fiscal year 2019, there were 967.8 million containers sold. The amount of containers sold decreased to 943.9 million in fiscal year 2020.

For the mental health substance abuse fund, the actual revenues received of \$7.9 million in FY 2020 were \$0.2 million more than the actual expenditures.

Capital Assets

As of June 30, 2020, the Department's governmental activities had invested approximately \$107.7 million (net of accumulated depreciation) in a broad range of capital assets. See Note 4 to the Department's basic financial statements for a description of capital assets activities for the fiscal year ended June 30, 2020.

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

	2020	2019
Land	\$ 1,018	\$ 1,018
Land improvements	3,305	3,305
Buildings and building improvements	235,424	234,803
Furniture and equipment	30,047	28,609
Total	269,794	267,735
Accumulated depreciation	162,101	157,333
Total capital assets, net	\$ 107,693	\$ 110,402

Currently Known Facts, Decisions, or Conditions

On March 4, 2020, in response to a new disease commonly known as COVID-19 caused by a novel strain of coronavirus, Hawaii Governor David Y. Ige proclaimed the spread of COVID-19 in Hawaii to be a disaster and declared a state of emergency in Hawaii. Several emergency proclamations have been issued.

Department of Health State of Hawaii

Management Discussion and Analysis June 30, 2020

In FY 2020, AMHD serviced 7,990 clients as compared to the 7,124 clients serviced in FY 2019. AMHD's Crisis Line of Hawaii (formerly known as Access Line) continues to provide short term confidential counseling, information about available help, and mobile support services in a crisis. As of July 1, 2020, the Crisis Line of Hawaii will be consolidated with the Behavioral Health Administration's Hawaii CARES program.

In the developmental disabilities program, the number of clients increased by 97 clients in FY 2020 over 2019. In FY 2020, the program served 2,964 clients in the home and community-based waiver program as compared to 2,867 clients served in FY 2019.

Further, the Federal Medical Assistance Percentage (FMAP) decreased from 54.78 percent to 53.92 percent for the period October 2018 to September 2019. The FMAP decreased from 53.92 percent to 53.47 percent effective October 2019 to September 2020. Due to the COVID-19 pandemic, the Families First Coronavirus Response Act provided an additional FMAP of 6.2 percent increase effective January 1, 2020 until the end of the quarter in which the Public Health Emergency period ends.

And lastly, the WPCRF executed a total of four loan agreements for \$128.6 million during FY 2020. DWTRLF executed a total of three loan agreements for \$21.0 million during FY 2020. Further, the WPCRF expects to execute a total of seven loan agreements in the amount of \$61.2 million while the DWTRLF expects to execute a total of eleven loan agreements for \$33.8 million in FY 2021.

**Department of Health
State of Hawaii**

Statement of Net Position
June 30, 2020

	Governmental Activities	Business-Type Activities	Total
<u>Assets and Deferred Outflows of Resources</u>			
Current Assets:			
Equity in Cash and Cash Equivalents and Investments in State Treasury	\$ 396,477,925	\$ 121,607,241	\$ 518,085,166
Receivables:			
Due from State Treasury	-	673,208	673,208
Due from other State agencies	745,333	-	745,333
Accrued interest and loan fees	482,247	1,760,145	2,242,392
Accounts receivable	245,437	-	245,437
Due from Federal government	9,284,635	469,899	9,754,534
Tobacco settlement receivable	16,538,750	-	16,538,750
Current maturities of loans receivable	-	48,647,782	48,647,782
Total current assets	423,774,327	173,158,275	596,932,602
Loans Receivable, net of current maturities	-	612,022,913	612,022,913
Capital Assets, net of accumulated depreciation	107,692,809	1,153,829	108,846,638
Total assets	531,467,136	786,335,017	1,317,802,153
Deferred Outflows of Resources	-	1,996,234	1,996,234
Total assets and deferred outflows of resources	\$ 531,467,136	\$ 788,331,251	\$ 1,319,798,387
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>			
Current Liabilities:			
Vouchers payable	\$ 52,842,414	\$ 527,283	\$ 53,369,697
Accrued wages and employee benefits payable	14,994,246	233,615	15,227,861
Unearned revenue	5,776,372	-	5,776,372
Accrued vacation, current portion	9,867,586	116,000	9,983,586
Workers' compensation liability	922,566	-	922,566
Due to other State agencies	34,519,014	-	34,519,014
Beverage container deposits	2,046,895	-	2,046,895
Total current liabilities	120,969,093	876,898	121,845,991
Accrued Vacation, net of current portion	21,796,361	362,955	22,159,316
Net Pension Liability	-	6,726,710	6,726,710
Net Other Postemployment Benefits Liability	-	6,558,564	6,558,564
Total liabilities	142,765,454	14,525,127	157,290,581
Deferred Inflows of Resources	-	587,832	587,832
Net Position:			
Net investment in capital assets	107,692,809	1,153,829	108,846,638
Restricted for:			
Loans	-	772,064,463	772,064,463
Trust fund programs	12,819,544	-	12,819,544
Medicaid programs	59,961,504	-	59,961,504
Unrestricted	208,227,825	-	208,227,825
Total net position	388,701,682	773,218,292	1,161,919,974
Total liabilities, deferred inflows of resources, and net position	\$ 531,467,136	\$ 788,331,251	\$ 1,319,798,387

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Activities
For the Fiscal Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General administration	\$ 50,358,762	\$ 1,759,334	\$ 13,590,660	\$ (35,008,768)	\$ -	\$ (35,008,768)
Environmental health administration	80,995,922	9,122,610	9,882,266	(61,991,046)	-	(61,991,046)
Behavioral health services administration	374,840,281	4,286,075	26,261,007	(344,293,199)	-	(344,293,199)
Health resources administration	291,583,742	18,180,531	76,814,964	(196,588,247)	-	(196,588,247)
Total governmental activities	797,778,707	33,348,550	126,548,897	(637,881,260)	-	(637,881,260)
Business-type Activities --						
Environmental Health Loan Programs	11,204,021	6,511,605	27,602,297	-	22,909,881	22,909,881
Total Department	<u>\$ 808,982,728</u>	<u>\$ 39,860,155</u>	<u>\$ 154,151,194</u>	<u>(637,881,260)</u>	<u>22,909,881</u>	<u>(614,971,379)</u>
General Revenues:						
State general fund allotments, net				510,858,532	-	510,858,532
Nonimposed employee fringe benefits				88,542,025	-	88,542,025
Hawaii tobacco settlement special fund				34,959,044	-	34,959,044
Tobacco tax				22,821,190	-	22,821,190
Deposit beverage container fee				26,461,627	-	26,461,627
Environmental response tax				1,248,675	-	1,248,675
Advance glass disposal fee				836,279	-	836,279
Total general revenues				685,727,372	-	685,727,372
Transfers				(37,093,465)	4,708,000	(32,385,465)
Change in net position				10,752,647	27,617,881	38,370,528
Net Position at July 1, 2019				377,949,035	745,600,411	1,123,549,446
Net Position at June 30, 2020				<u>\$ 388,701,682</u>	<u>\$ 773,218,292</u>	<u>\$ 1,161,919,974</u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Balance Sheet – Governmental Funds
June 30, 2020

	General	Deposit Beverage Container Deposit	Mental Health Substance Abuse	Hawaii Tobacco Settlement	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in cash and cash equivalents and investments in State Treasury	\$ 93,155,991	\$ 55,651,854	\$ 56,121,743	\$ 20,079,942	\$ 171,468,395	\$ 396,477,925
Due from other State agencies	-	-	745,333	-	-	745,333
Accrued interest receivable	-	91,937	104,935	30,055	255,320	482,247
Accounts receivable	-	166,016	-	-	79,421	245,437
Due from Federal government	-	-	-	-	9,284,635	9,284,635
Total assets	<u>\$ 93,155,991</u>	<u>\$ 55,909,807</u>	<u>\$ 56,972,011</u>	<u>\$ 20,109,997</u>	<u>\$ 181,087,771</u>	<u>\$ 407,235,577</u>
Liabilities and Fund Balances						
Liabilities:						
Vouchers and contracts payable	\$ 28,519,286	\$ 3,299,780	\$ 1,867	\$ -	\$ 21,021,481	\$ 52,842,414
Accrued wages and employee benefits payable	12,037,581	33,621	-	-	2,923,044	14,994,246
Unearned revenue	-	200,000	745,333	-	6,428,579	7,373,912
Due to other State agencies	-	-	-	14,909,765	3,070,499	17,980,264
Beverage container deposits	-	2,046,895	-	-	-	2,046,895
Total liabilities	<u>40,556,867</u>	<u>5,580,296</u>	<u>747,200</u>	<u>14,909,765</u>	<u>33,443,603</u>	<u>95,237,731</u>
Fund Balances:						
Restricted:						
Medicaid programs	-	-	56,224,811	-	3,736,693	59,961,504
Trust fund programs	-	-	-	-	12,819,544	12,819,544
Committed:						
Behavioral health services	-	-	-	-	5,346,869	5,346,869
Environmental health	-	-	-	-	36,256,136	36,256,136
General administration	-	-	-	-	5,220,646	5,220,646
Health resources	-	-	-	-	73,633,642	73,633,642
Capital projects activities	-	-	-	-	10,630,638	10,630,638
Deposit beverage container program	-	50,329,511	-	-	-	50,329,511
Tobacco settlement program	-	-	-	5,200,232	-	5,200,232
Assigned:						
Behavioral health services	15,028,685	-	-	-	-	15,028,685
Environmental health	685,007	-	-	-	-	685,007
General administration	21,271,175	-	-	-	-	21,271,175
Health resources	15,614,257	-	-	-	-	15,614,257
Unassigned	-	-	-	-	-	-
Total fund balances	<u>52,599,124</u>	<u>50,329,511</u>	<u>56,224,811</u>	<u>5,200,232</u>	<u>147,644,168</u>	<u>311,997,846</u>
Total liabilities and fund balances	<u>\$ 93,155,991</u>	<u>\$ 55,909,807</u>	<u>\$ 56,972,011</u>	<u>\$ 20,109,997</u>	<u>\$ 181,087,771</u>	<u>\$ 407,235,577</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020

Total Fund Balances - Governmental Funds	\$ 311,997,846
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	107,692,809
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	(31,663,947)
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	(922,566)
Other financing sources not collected within 60 days and therefore not available for current financial resources are reported as unavailable revenues in the governmental funds.	<u>1,597,540</u>
Net Position of Governmental Activities	<u><u>\$ 388,701,682</u></u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2020

	General	Deposit Beverage Container Deposit	Mental Health Substance Abuse	Hawaii Tobacco Settlement	Other Governmental Funds	Total Governmental Funds
Revenues:						
State-allotted appropriations	\$ 504,099,251	\$ -	\$ -	\$ -	\$ 6,759,281	\$ 510,858,532
Intergovernmental	-	-	-	-	118,256,491	118,256,491
Nonimposed employee fringe benefits	88,505,624	-	-	-	36,401	88,542,025
Taxes, fees, fines and other	-	-	286,915	-	62,905,345	63,192,260
Investment income	-	874,639	997,945	312,770	2,352,113	4,537,467
Hawaii tobacco settlement	-	-	-	34,959,044	-	34,959,044
Deposit beverage container deposit	-	26,786,300	-	-	-	26,786,300
Total revenues	592,604,875	27,660,939	1,284,860	35,271,814	190,309,631	847,132,119
Expenditures:						
General administration	33,462,407	-	-	-	13,879,545	47,341,952
Environmental health	32,664,982	21,942,595	-	-	26,865,346	81,472,923
Behavioral health services	343,407,372	-	1,295,246	-	28,645,838	373,348,456
Health resources	172,048,008	-	-	9,396,394	108,042,341	289,486,743
Total expenditures	581,582,769	21,942,595	1,295,246	9,396,394	177,433,070	791,650,074
Excess (deficiency) of revenues over (under) expenditures	11,022,106	5,718,344	(10,386)	25,875,420	12,876,561	55,482,045
Other Financing Sources (Uses):						
Transfers in	-	-	53,169,680	33,025,803	78,898,401	165,093,884
Transfers out	(20,677,790)	-	(49,175,089)	(60,630,402)	(74,003,974)	(204,487,255)
Total other financing sources (uses)	(20,677,790)	-	3,994,591	(27,604,599)	4,894,427	(39,393,371)
Net change in fund balances	(9,655,684)	5,718,344	3,984,205	(1,729,179)	17,770,988	16,088,674
Fund Balances at July 1, 2019	62,254,808	44,611,167	52,240,606	6,929,411	129,873,180	295,909,172
Fund Balances at June 30, 2020	\$ 52,599,124	\$ 50,329,511	\$ 56,224,811	\$ 5,200,232	\$ 147,644,168	\$ 311,997,846

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 Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ 16,088,674
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 are allocated over their estimated useful lives and reported as depreciation expense.	(4,826,209)
Transfers in related to capital assets are not financial resources and, therefore, are not reported in the governmental funds.	2,116,694
Increase in compensated absences reported in the statement of activities do not require the use of current financial resources and therefore not reported as expenditures in the governmental funds.	(2,364,027)
Increase in workers' compensation liability reported in the statement of activities do not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.	(121,025)
Other financing sources reported on the statement of activities that do not provide or use current financial resources and are reported as unavailable revenues in the governmental funds, net of prior year transfers recorded in the current period.	(141,460)
Change in Net Position - Governmental Activities	<u>\$ 10,752,647</u>

See accompanying notes to the basic financial statements.

Department of Health **State of Hawaii**

General Fund

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2020

	Original	Final	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues --				
State allotments	\$ 522,615,292	\$ 522,719,165	\$ 510,463,501	\$ (12,255,664)
Expenditures:				
General administration	32,312,002	32,312,002	30,351,577	1,960,425
Environmental health	27,000,975	27,005,047	25,293,140	1,711,907
Behavioral health services	303,979,375	304,051,549	300,241,848	3,809,701
Health resources	159,322,940	159,350,567	154,576,936	4,773,631
	<u>522,615,292</u>	<u>522,719,165</u>	<u>510,463,501</u>	<u>12,255,664</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Special Revenue Funds

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2020

		Actual on Budgetary Basis				
	Original	Final	Deposit Beverage Container Deposit	Mental Health Substance Abuse	Hawaii Tobacco Settlement	Variance Favorable (Unfavorable)
Revenues --						
Intergovernmental revenues:						
Deposit beverage container deposit	\$ 71,207,053	\$ 71,207,053	\$ 58,455,057	\$ -	\$ -	\$ (12,751,996)
Mental health substance abuse	11,610,000	11,610,000	-	7,867,380	-	(3,742,620)
Hawaii tobacco settlement	48,626,356	48,626,356	-	-	35,677,327	(12,949,029)
	<u>131,443,409</u>	<u>131,443,409</u>	<u>58,455,057</u>	<u>7,867,380</u>	<u>35,677,327</u>	<u>(29,443,645)</u>
Expenditures:						
Environmental health						
Deposit beverage container deposit	71,207,053	71,207,053	69,973,369	-	-	1,233,684
Behavioral health services						
Mental health substance abuse	11,610,000	11,610,000	-	7,707,958	-	3,902,042
Health resources						
Hawaii tobacco settlement	48,626,356	48,626,356	-	-	48,626,356	-
	<u>131,443,409</u>	<u>131,443,409</u>	<u>69,973,369</u>	<u>7,707,958</u>	<u>48,626,356</u>	<u>5,135,726</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,518,312)</u>	<u>\$ 159,422</u>	<u>\$ (12,949,029)</u>	<u>\$ (24,307,919)</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Net Position - Proprietary Funds
June 30, 2020

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Assets and Deferred Outflows of Resources:			
Current assets:			
Equity in cash and cash equivalents and investments in State Treasury	\$ 97,757,940	\$ 23,849,301	\$ 121,607,241
Loan fees receivable	649,220	643,751	1,292,971
Accrued interest receivable	347,782	119,392	467,174
Due from Federal Government	-	469,899	469,899
Due from State Treasury	529,101	144,107	673,208
Current portion of loans receivable	35,517,345	13,130,437	48,647,782
Total current assets	134,801,388	38,356,887	173,158,275
Loans receivable, net of current portion	421,589,000	190,433,913	612,022,913
Capital assets, net of accumulated depreciation	453,691	700,138	1,153,829
Total assets	556,844,079	229,490,938	786,335,017
Deferred outflows of resources	1,195,672	800,562	1,996,234
Total assets and deferred outflows of resources	<u>\$ 558,039,751</u>	<u>\$ 230,291,500</u>	<u>\$ 788,331,251</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Current liabilities--			
Accounts payable and other accrued liabilities	\$ 226,926	\$ 649,972	\$ 876,898
Accrued vacation, net of current portion	187,831	175,124	362,955
Net pension liability	4,045,126	2,681,584	6,726,710
Net other postemployment benefits liability	3,741,165	2,817,399	6,558,564
Total liabilities	8,201,048	6,324,079	14,525,127
Deferred inflows of resources	72,578	515,254	587,832
Net Position:			
Net investment in capital assets	453,691	700,138	1,153,829
Restricted - expendable	549,312,434	222,752,029	772,064,463
Total net position	549,766,125	223,452,167	773,218,292
Total liabilities, deferred inflows of resources, and net position	<u>\$ 558,039,751</u>	<u>\$ 230,291,500</u>	<u>\$ 788,331,251</u>

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2020

	Business-type Activities-Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating Revenues:			
Interest income from loans	\$ 1,249,413	\$ 459,534	\$ 1,708,947
Administrative loan fees	2,449,050	2,353,608	4,802,658
Total revenues	3,698,463	2,813,142	6,511,605
Expenses:			
Administrative	2,653,245	2,143,792	4,797,037
State program management	-	731,167	731,167
Water protection	-	462,293	462,293
Principal forgiveness for SRF	2,473,700	2,699,824	5,173,524
Small system technical assistance	-	40,000	40,000
Total expenses	5,126,945	6,077,076	11,204,021
Operating loss	(1,428,482)	(3,263,934)	(4,692,416)
Nonoperating Revenues and Expenses:			
State contributions	2,487,000	2,221,000	4,708,000
Federal contributions	8,869,147	14,796,591	23,665,738
Other interest income	3,300,721	635,838	3,936,559
Total nonoperating revenues and expenses	14,656,868	17,653,429	32,310,297
Change in net position	13,228,386	14,389,495	27,617,881
Net Position:			
Beginning of year	536,537,739	209,062,672	745,600,411
End of year	\$ 549,766,125	\$ 223,452,167	\$ 773,218,292

See accompanying notes to the basic financial statements.

**Department of Health
State of Hawaii**

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2020

	Business-type Activities - Enterprise Fund		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash Flows from Operating Activities:			
Payments to employees	\$ (2,096,109)	\$ (1,552,915)	\$ (3,649,024)
Payments to vendors	(123,654)	(1,128,786)	(1,252,440)
Net cash used in operating activities	<u>(2,219,763)</u>	<u>(2,681,701)</u>	<u>(4,901,464)</u>
Cash Flows from Noncapital Financing Activities:			
State contributions	2,487,000	2,221,000	4,708,000
Federal contributions	8,869,147	14,444,558	23,313,705
Net cash provided by noncapital financing activities	<u>11,356,147</u>	<u>16,665,558</u>	<u>28,021,705</u>
Cash Flows from Capital and Related Financing Activities--			
Purchase of equipment	<u>(6,077)</u>	<u>(72,767)</u>	<u>(78,844)</u>
Cash Flows from Investing Activities:			
Principal repayments on loans	31,967,050	11,415,408	43,382,458
Disbursement of loan proceeds	(130,751,617)	(28,348,127)	(159,099,744)
Interest income from loans	1,215,779	442,555	1,658,334
Administrative loan fees	2,195,404	2,337,820	4,533,224
Other interest income	6,168,463	1,066,952	7,235,415
Net cash used in investing activities	<u>(89,204,921)</u>	<u>(13,085,392)</u>	<u>(102,290,313)</u>
Net (decrease) increase in cash	<u>(80,074,614)</u>	<u>825,698</u>	<u>(79,248,916)</u>
Equity in Cash and Cash Equivalents and Investments in State Treasury:			
Beginning of year	177,832,554	23,023,603	200,856,157
End of year	<u>\$ 97,757,940</u>	<u>\$ 23,849,301</u>	<u>\$ 121,607,241</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:			
Operating loss	\$ (1,428,482)	\$ (3,263,934)	\$ (4,692,416)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense	136,258	217,355	353,613
Principal forgiveness for SRF	2,473,700	2,699,824	5,173,524
Interest income from loans	(1,249,413)	(459,534)	(1,708,947)
Administrative loan fees	(2,449,050)	(2,353,608)	(4,802,658)
Change in assets, deferred outflows, liabilities, and deferred inflows:			
Due from State Treasury	(1,612)	-	(1,612)
Accounts receivable	-	1,270	1,270
Accounts payable and other accrued liabilities	44,514	234,850	279,364
Net deferred outflows/inflows of resources	11,875	43,441	55,316
Net pension liability	238,260	195,373	433,633
Net other postemployment benefits liability	4,187	3,262	7,449
Net cash used in operating activities	<u>\$ (2,219,763)</u>	<u>\$ (2,681,701)</u>	<u>\$ (4,901,464)</u>

See accompanying notes to the basic financial statements.

Department of Health
State of Hawaii

Fiduciary Funds
Statement of Fiduciary Net Position - Agency Funds
June 30, 2020

Assets --

Cash and cash equivalents	<u>\$ 448,977</u>
Total assets	<u>448,977</u>

Liabilities --

Due to others	<u>448,977</u>
Total liabilities	<u>448,977</u>

Net Position	<u><u>\$ -</u></u>
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See accompanying notes to the basic financial statements.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies

a. Financial 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, 2020, and the changes in its financial position and cash flows, and budgetary comparisons, where applicable, for the year then ended in conformity with GAAP. 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.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

b. 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 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.

c. 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 other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year-end.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure or expenses are incurred as of fiscal year-end and funds are available.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

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 are reported as operating expenses.

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

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.

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.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

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 intact;

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

Committed - amounts 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 Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

c. Fund Financial Statements (continued)

Proprietary 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.

d. 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/>.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

e. 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 approximately \$745,000 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.

f. 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 \$1.4 billion over a 27 year period. The Department is responsible for administering the Hawaii Tobacco Settlement Special Fund (HTSSF). The Department of Budget and Finance receives all tobacco settlement monies. The annual tobacco settlement monies are then transferred to the Department. Subsequently, the Department allocates and appropriates 100 percent of the funds to other State agencies and other entities in accordance with Act 118, Sessions Laws of Hawaii (SLH) 2015. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year.

During the year ended June 30, 2018, the State entered into an arbitration settlement with the Tobacco industry. As a result, arbitration credits of approximately \$10.5 million will be applied against the annual tobacco settlement payments through the year ending June 30, 2022.

The Department recognized approximately \$35.0 million in tobacco settlement revenues during the year ended June 30, 2020. 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 \$16.5 million in the statement of net position representing tobacco settlements earned for the period January 1, 2020 through June 30, 2020.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

g. Loans 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. Certain capitalization grants allow for portions of loans to be forgiven upon satisfaction of certain requirements.

h. 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.

i. 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:

	Minimum Capitalization Amount
Land	All
Land improvements	\$ 100,000
Buildings and improvements	100,000
Furniture and equipment	5,000
Motor vehicles	5,000

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

i. Capital Assets (continued)

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:

	Governmental-Type Activities	Business-Type Activities
Land improvements	15 years	5-100 years
Buildings and improvements	30 years	5-100 years
Furniture and equipment	7 years	1-25 years
Motor vehicles	5 years	5-10 years

j. 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, 2020 consisted primarily of Federal grant funds for which all requirements had not yet been met.

k. Due to Other State Agencies

Payables to other State agencies primarily consist of funds allocated to other State agencies in accordance with the HTSSF and payables due to DHS for Medicaid payments. The balances as of June 30, 2020 are as follows:

Hawaii tobacco settlement special fund	\$ 31,448,515
Medicaid payable to DHS	1,435,687
Other	1,634,812
Total due to other State agencies	<u>\$ 34,519,014</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

l. 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 sold. 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 \$0.01 are made by the distributors to the DBCDSF for each qualifying container as a container 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 Hawaii Revised Statutes (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.

m. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The following is a breakdown of deferred outflows of resources and deferred inflows of resources as of June 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	\$ 1,370,309	\$ (497,091)
Related to Other Post-retirement Benefits	625,925	(90,741)
	<u>\$ 1,996,234</u>	<u>\$ (587,832)</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

n. 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. Accrued vacation also includes compensatory time, as compensatory time 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.

o. 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, 2020, accumulated sick leave was approximately \$76.4 million.

p. 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.

q. Use of Estimates

In preparing financial statements in conformity with GAAP, 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 Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

r. 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.

s. 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.

t. Nonmonetary Transactions

The Department receives noncash awards for one of its federally funded programs. The Department expended approximately \$13.7 million in vaccines during the fiscal year ended June 30, 2020.

u. 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. The DBCDSF is exempt from paying the central service fee assessed by DAGS under Act 228, SLH 2013.

v. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

w. Other Post-employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

x. New Accounting Pronouncement

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provision of this Statement is effective for the period beginning after December 15, 2018, postponed by GASB Statement No. 95 for one year. The Department has not yet determined the effect this Statement will have on its financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thus enhancing the relevance and consistency of information reported about the government's leasing activities. The provisions of this Statement are effective for the period beginning after December 15, 2019, postponed by GASB Statement No. 95 for 18 months. The Department has not yet determined the effect this Statement will have on its financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of this Statement are effective at multiple periods depending on when certain statements are implemented, postponed by GASB Statement No. 95. The Department has not yet determined the effect this Statement will have on its financial statements.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

x. New Accounting Pronouncement (continued)

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in statements and implementation guides. The provisions of this Statement is effective immediately. This Statement did not have a material effect on the Department's financial statement.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government users. The provisions of this Statement are effective for reporting periods beginning after June 15, 2022. The Department has not yet determined the effect this Statement will have on its financial statements.

2. 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.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

2. Budgeting and Budgetary Control (continued)

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.

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, 2020, to excess of revenues over expenditures presented in conformity with GAAP follows:

	General	Deposit Beverage Container Deposit	Mental Health Substance Abuse	Hawaii Tobacco Settlement
(Deficiency) excess of revenues over (under) expenditures and other sources (uses) - actual on a budgetary basis	\$ -	\$ (11,518,312)	\$ 159,422	\$ (12,949,029)
Current year's appropriations encumbered at June 30, 2020	52,599,124	20,650,053	6,506,582	-
Expenditures for liquidation of prior fiscal year encumbrances	(420,045,136)	(6,363,814)	(1,911,938)	(19,020)
Total accruals and other adjustments	<u>378,468,118</u>	<u>2,950,417</u>	<u>(4,764,452)</u>	<u>38,843,469</u>
Net change in fund balances - GAAP basis	<u>\$ 11,022,106</u>	<u>\$ 5,718,344</u>	<u>\$ (10,386)</u>	<u>\$ 25,875,420</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

3. Loans Receivable

At June 30, 2020, 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% to 2.96%, commencing not later than one year after project completion, notice to proceed, final loan disbursement, or three years after loan agreement date. Final payment is due not later than twenty years after project completion. During the year ended June 30, 2020, approximately \$5.2 million in loans was forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately \$467,000 at June 30, 2020.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2020:

<u>Year ending June 30,</u>	
2021	\$ 48,647,782
2022	49,157,730
2023	49,754,435
2024	49,910,956
2025	50,142,704
2026-2030	207,153,269
2031-2035	134,342,403
2036-2040	67,948,142
2041-2042	<u>3,613,274</u>
	<u>\$ 660,670,695</u>

As of June 30, 2020, the Department's proprietary funds were committed under existing loan agreements to the following counties:

	<u>Water Pollution Control Revolving Fund</u>	<u>Drinking Water Treatment Revolving Loan Fund</u>	<u>Total</u>
City and County of Honolulu	\$ 6,000,000	\$ 6,609,097	\$ 12,609,097
County of Maui	10,760,684	8,250,000	19,010,684
County of Hawaii	20,571,654	-	20,571,654
County of Kauai	5,100,000	-	5,100,000
Private Water Systems	-	1,994,575	1,994,575
	<u>\$ 42,432,338</u>	<u>\$ 16,853,672</u>	<u>\$ 59,286,010</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

4. Capital Assets

Capital asset activity for governmental and business-type activities for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Disposals	Balance June 30, 2020
Governmental Type Activities:				
Depreciable Assets:				
Land improvements	\$ 3,304,766	\$ -	\$ -	\$ 3,304,766
Building and improvements	234,803,595	2,362,694	(1,741,803)	235,424,486
Furniture and equipment	28,608,854	3,265,622	(1,827,606)	30,046,870
Total depreciable assets	<u>266,717,215</u>	<u>5,628,316</u>	<u>(3,569,409)</u>	<u>268,776,122</u>
Less Accumulated Depreciation:				
Land improvements	(2,596,793)	(96,124)	-	(2,692,917)
Building and improvements	(131,249,275)	(5,953,716)	1,721,384	(135,481,607)
Furniture and equipment	(23,486,903)	(2,266,461)	1,826,495	(23,926,869)
Total accumulated depreciation	<u>(157,332,971)</u>	<u>(8,316,301)</u>	<u>3,547,879</u>	<u>(162,101,393)</u>
Non-Depreciable Assets:				
Land	<u>1,018,080</u>	<u>-</u>	<u>-</u>	<u>1,018,080</u>
Governmental activities capital assets, net	<u>\$ 110,402,324</u>	<u>\$ (2,687,985)</u>	<u>\$ (21,530)</u>	<u>\$ 107,692,809</u>
Business Type Activities				
Depreciable Assets:				
Furniture and equipment	\$ 3,888,055	\$ 78,841	\$ (472,370)	\$ 3,494,526
Less Accumulated Depreciation:				
Furniture and equipment	(2,459,454)	(353,613)	472,370	(2,340,697)
Business activities capital assets, net	<u>\$ 1,428,601</u>	<u>\$ (274,772)</u>	<u>\$ -</u>	<u>\$ 1,153,829</u>
Total department capital assets, net	<u>\$ 111,830,925</u>	<u>\$ (2,962,757)</u>	<u>\$ (21,530)</u>	<u>\$ 108,846,638</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

4. Capital Assets (continued)

Current period depreciation expense was charged to functions as follows:

	Governmental Activities	Business-Type Activities	Total
General administration	\$ 2,957,438	\$ -	\$ 2,957,438
Environmental health	834,524	353,613	1,188,137
Behavioral health	1,095,984	-	1,095,984
Health resources	3,202,770	-	3,202,770
Total	<u>\$ 8,090,716</u>	<u>\$ 353,613</u>	<u>\$ 8,444,329</u>

5. Accrued Vacation

The changes to the accrued vacation liability during the year ended June 30, 2020 were as follows:

	Governmental Activities	Business-Type Activities	Total
Balance at July 1, 2019	\$ 29,299,920	\$ 430,654	\$ 29,730,574
Increase	14,934,871	169,952	15,104,823
Decrease	<u>(12,570,844)</u>	<u>(121,651)</u>	<u>(12,692,495)</u>
Balance at June 30, 2020	31,663,947	478,955	32,142,902
Less: Current Portion	<u>9,867,586</u>	<u>116,000</u>	<u>9,983,586</u>
Noncurrent Portion	<u>\$ 21,796,361</u>	<u>\$ 362,955</u>	<u>\$ 22,159,316</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

6. Beverage Container Deposits

The changes to the beverage container deposit liability during the year ended June 30, 2020 were as follows:

Balance as of July 1, 2019	\$ 2,976,891
Increase: Deposits received from distributors	48,657,827
Decrease: Payments made to recycling centers, net of refunds	(30,723,334)
Decrease: Unredeemed deposits recognized as revenue	<u>(18,864,489)</u>
Balance as of June 30, 2020	<u>\$ 2,046,895</u>

7. 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, 2020, were as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Assets --				
Cash	<u>\$ 408,343</u>	<u>\$ 83,510</u>	<u>\$ 42,876</u>	<u>\$ 448,977</u>
Liabilities --				
Due to Others	<u>\$ 408,343</u>	<u>\$ 83,510</u>	<u>\$ 42,876</u>	<u>\$ 448,977</u>

Department of Health State of Hawaii

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8. 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 \$88.5 million for the fiscal year ended June 30, 2020, 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.

9. Employee Benefit Plans

a. Employees' Retirement System

i. Plan Description

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

ii. Benefits Provided

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

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

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

Contributory Plan for Employees Hired Prior to July 1, 2012

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

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and fire fighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump-sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Plan for Employees Hired After June 30, 2012

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

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and fire fighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Plan for Employees Hired Prior to July 1, 2012

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

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

Hybrid Plan for Employees Hired After June 30, 2012

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

ii. Benefits Provided (continued)

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

iii. Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2020 were 36% for police officers and firefighters and 22% for all other employees. Contributions to the pension plan from the Department were \$473,786 for the fiscal year ended June 30, 2020.

Pursuant to Act 17 SLH 2017, employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police officers and firefighters increased to 36% on July 1, 2019 and increases to 41% on July 1, 2020. The rate for all other employees increased to 22% on July 1, 2019 and increases to 24% on July 1, 2020.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iii. Contributions (continued)

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

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

At June 30, 2020, the Department reported a liability of \$6,726,710 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2019 and 2018, the Department's proportion of the State share was 0.09% and 0.08%, respectively.

The following changes were made to the actuarial assumptions as of June 30, 2018 to June 30, 2019:

- The assumed salary increase schedules include an ultimate component for general wage inflation that may add on additional increases for individual merit and then an additional component for step rates based on service.
- Mortality rates generally decreased due to the continued improvements in using a fully generational approach and Scale BB.
- The rates of disability of active employees increased for all general employees and teachers, and for police and fire from duty-related reasons.
- There were minor increases in the retirement rates for members in certain groups based on age, employment group and/or membership class.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iv. Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources, Related to Pensions (continued)

There were no changes in assumptions between the measurement date, June 30, 2019, and the reporting date, June 30, 2020, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2020, the Department recognized pension expense of \$1,027,496. At June 30, 2020, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 151,045	\$ (17,746)
Changes in assumptions	515,630	(114)
Net difference between projected and actual earnings on pension plan investments	209,430	(445,797)
Changes in proportion and difference between Department contributions and proportionate share of contributions	20,418	(33,434)
Department contributions subsequent to the measurement date	473,786	-
	<u>\$ 1,370,309</u>	<u>\$ (497,091)</u>

Department of Health **State of Hawaii**

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

iv. Net Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources, Related to Pensions (continued)

The \$473,786 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ending June 30,</u>	
2021	\$ 152,414
2022	103,922
2023	73,306
2024	72,664
2025	<u>(2,874)</u>
	<u>\$ 399,432</u>

v. Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii, on August 12, 2019, based on the 2018 Experience Study for the five-year period from July 1 2013 through June 30, 2018:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annually including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Department of Health **State of Hawaii**

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Strategic Allocation (risk-based classes)	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63.0%	7.1%
Principal protection	7.0%	2.5%
Real return	10.0%	4.1%
Crisis risk offset	20.0%	4.6%
	<u>100.0%</u>	

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

v. Actuarial Assumptions (continued)

Discount Rate - The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ 8,729,613	\$ 6,726,710	\$ 5,284,656

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

a. Employees' Retirement System (continued)

vi. Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.hawaii.gov/resources/financials>.

The State's comprehensive annual financial report contains further disclosures related to the State's proportionate share of the net pension liability and employer pension contributions.

vii. Payables to the Pension Plan

At June 30, 2020, there was no payable to the ERS.

b. 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 Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits

i. Plan Description

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

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

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

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

i. Plan Description (continued)

State Policy - The actuarial valuation of the EUTF does not provide 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 contributions made by each component unit or proprietary fund for retiree health benefits.

ii. Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department was \$526,978 for the fiscal year ended June 30, 2020. The employer is required to make all contributions for members.

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

At June 30, 2020, the Department reported a liability of \$6,558,564 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State's proportion of the net OPEB liability was based on a projection of the State's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The Department's proportion of the net OPEB liability was based on an allocation of the State's net OPEB liability based on the proportionate share of qualified payroll. At June 30, 2019 and 2018, the Department's proportion of the State's share was 0.07% and 0.06%, respectively.

There were no changes in assumptions between the measurement date, July 1, 2019, and the reporting date, June 30, 2020, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iii. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

For the year ended June 30, 2020, the Department recognized OPEB expense of \$469,667. At June 30, 2020, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (90,741)
Changes in assumptions	86,035	-
Net difference between projected and actual earnings on investments	12,912	-
Department contributions subsequent to the measurement date	526,978	-
	<u>\$ 625,925</u>	<u>\$ (90,741)</u>

The \$526,978 reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal year ending June 30,</u>	
2021	\$ (862)
2022	(862)
2023	(863)
2024	863
2025	9,930
	<u>\$ 8,206</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iv. Actuarial Assumptions

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial methods and assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period June 30, 2018 as conducted for the ERS, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates:	
PPO*	Initial rate of 8.00% declining to a rate of 4.86% after 12 years.
HMO*	Initial rate of 8.00% declining to a rate of 4.86% after 12 years.
Contribution	Initial rate of 5.00% declining to a rate of 4.70% after 11 years.
Dental	Initial rate of 5.00% for first two years, followed by 4.00%
Vision	Initial rate of 0.00% for first two years, followed by 2.50%
Life insurance	0.00%

*Blended rates for medical and prescription drug

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Department of Health **State of Hawaii**

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

iv. Actuarial Assumptions (continued)

Strategic Allocation (risk-based classes)	Target Allocation	Long-term Expected Rate of Return
U.S. equity	15.00%	5.35%
International equity	17.00%	6.90%
U.S. microcap	7.00%	7.30%
Private equity	10.00%	8.80%
Private credit	6.00%	5.60%
Alternative risk premia	5.00%	2.75%
Core real estate	10.00%	3.90%
Global options	7.00%	4.75%
Core bonds	3.00%	1.50%
Long treasuries	6.00%	2.00%
Trend following	9.00%	3.25%
TIPS	5.00%	1.20%
	<u>100.00%</u>	

v. Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on the OPEB plan investments of 7.00% and the municipal bond rate of 3.62% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-year Municipal GO AA Index”). Beginning with the fiscal year 2019 contribution, the State’s funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Department of Health **State of Hawaii**

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

vi. Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2019.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	\$ 7,356,983	\$ 805,869	\$ 6,551,114
Service cost	156,968	-	156,968
Interest on the total OPEB liability	494,778	-	494,778
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(4,120)	-	(4,120)
Changes of assumptions	39,766	-	39,766
Employer contributions	-	522,671	(522,671)
Net investment income	-	47,520	(47,520)
Benefit payments	(236,948)	(236,948)	-
Administrative expense	-	(327)	327
Other	-	110,078	(110,078)
Net changes	450,444	442,994	7,450
Ending balance	\$ 7,807,427	\$ 1,248,863	\$ 6,558,564

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

vii. Sensitivity of the Department's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Department's proportionate share of the net OPEB liability calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	<u>\$ 7,814,412</u>	<u>\$ 6,558,564</u>	<u>\$ 5,567,639</u>

viii. Sensitivity of the Department's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Department's proportionate share of the net OPEB liability calculated using the assumed healthcare cost trend rates, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Department's proportionate share of the net OPEB liability	<u>\$ 5,522,499</u>	<u>\$ 6,558,564</u>	<u>\$ 7,897,148</u>

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

9. Employee Benefit Plans (continued)

c. Post-Employment Healthcare and Life Insurance Benefits (continued)

ix. OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. The EUTF's complete financial statements are available at <http://eutf.hawaii.gov/reports/>.

x. Required Supplementary Information and Disclosures

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

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

10. Commitments and Contingencies

a. Operating Leases

The Department leases various office facilities and equipment through fiscal year 2028 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, 2020:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 492,005
2022	283,155
2023	151,047
2024	51,708
2025	27,351
2026-2028	<u>47,299</u>
	<u>\$ 1,052,565</u>

Rental expenditures for the fiscal year ended June 30, 2020 approximated \$2,196,000.

b. 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, 2020, 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, 2020 were approximately \$419,000 and \$1,000 for the general fund and other funds, respectively.

Department of Health State of Hawaii

Notes to Financial Statements
June 30, 2020

10. Commitments and Contingencies (continued)

c. 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.

11. Subsequent Events

On March 4, 2020, in response to a new disease commonly known as COVID-19 caused by a novel strain of coronavirus, Hawaii Governor David Y. Ige proclaimed the spread of COVID-19 in Hawaii to be a disaster and declared a state of emergency in Hawaii. Several emergency proclamations have been issued.

The Tenth Supplementary Proclamation, issued on July 17, 2020, suspended specific provisions of law. Included were Sections 87A-42(b) – (f), HRS, other post-employment benefits trust, 87A-43, HRS, payment of public employer contributions to the other post-employment benefits trust, and 237-31(3), HRS, remittances, related to the requirement for public employers to pay the annual required contribution to the Hawaii Employer-Union Health Benefits Trust Fund in the fiscal year 2020-2021.

SUPPLEMENTARY INFORMATION

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Direct Programs:				
TB Epidemiological Studies Consortium	626	200-2011-41277	\$ -	\$ 279,788
Special Programs for the Aging - Title VII Chapter 3	468	93.041	-	28,970
Special Programs for the Aging - Title VII Chapter 2	468	93.042	-	80,978
Special Programs for the Aging - Title III Part D	401	93.043	84,734	84,734
Aging Cluster:				
Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	401	93.044	1,992,920	2,090,274
Special Programs for the Aging - Title III Part C - Nutrition Services	401	93.045	2,270,969	2,807,002
Nutrition Services Incentive Program	406	93.053	182,709	182,709
Subtotal Aging Cluster			* 4,446,598	5,079,985
Special Programs for the Aging - Title IV and Title II - Discretionary Projects				
	405, 757	93.048	-	288,237
Alzheimer's Disease Demonstration Grants to States	769	93.051	121,425	280,246
National Family Caregiver Support, Title III, Part E	401	93.052	474,264	474,264
Public Health Emergency Preparedness:				
COVID 19 Public Health Emergency Preparedness	577, 760, 1297	93.069	-	25,332
Public Health Emergency Preparedness	577, 760, 1297	93.069	-	5,965,949
Subtotal Public Health Emergency Preparedness			-	5,991,281
Environmental Public Health and Emergency Response	444	93.070	133,000	264,211
Medicare Enrollment Assistance Program	765, 766, 767	93.071	-	244,618
Hawaii Birth Defects Surveillance and Intervention for Zika Virus	761	93.073	9,091	26,057
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	764	93.104	-	1,645,907
Maternal and Child Health Federal Consolidated Programs	257, 307, 466	93.110	690,751	1,042,748
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	247	93.116	-	1,090,342
EMSC Partnership Grants	670	93.127	-	202,161
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	298	93.130	10,500	162,459
Injury Prevention and Control Research and State and Community Based Programs	various	93.136	224,225	839,505
Projects for Assistance in Transition from Homelessness	26208, 30208	93.150	165,013	165,013
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	780	93.197	116,489	488,364

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
Hansen's Disease National Ambulatory Care Program	264	93.215	\$ -	\$ 915,325
Family Planning - Services	239	93.217	30,380	30,380
State Rural Hospital Flexibility Program	415	93.241	134,052	338,595
Substance Abuse and Mental Health Services - Projects of				
Regional and National Significance	various	93.243	3,557,175	3,797,190
Universal Newborn Hearing Screening	416	93.251	14,707	345,519
Immunization Cooperative Agreements	457	93.268	*	16,682,060
Adult Viral Hepatitis Prevention and Control	397	93.270	-	113,369
Small Rural Hospital Improvement Grant Program	454	93.301	111,455	111,455
National State Based Tobacco Control Programs	744	93.305	192,685	568,006
Epidemiology and Laboratory Capacity for Infectious Diseases:				
COVID 19 Epidemiology and Laboratory Capacity for Infectious Diseases	700	93.323	-	39,410
Epidemiology and Laboratory Capacity for Infectious Diseases	700	93.323	-	2,599,078
Subtotal Epidemiology and Laboratory Capacity for Infectious Diseases			-	2,638,488
State Health Insurance Assistance Program	403	93.324	-	336,550
Behavioral Risk Factor Surveillance System - Zika	747	93.336	268,508	351,636
Public Health Emergency Response: Cooperative Agreement for				
Emergency Response: Public Health Crisis Response:				
COVID 19 Public Health Emergency Response: Cooperative				
Agreement for Emergency Response: Public Health Crisis Response	706, 707, 708	93.354	-	657,699
Public Health Emergency Response: Cooperative Agreement for				
Emergency Response: Public Health Crisis Response	706, 707, 708	93.354	-	37,639
Subtotal Public Health Emergency Response: Cooperative Agreement				
for Emergency Response: Public Health Crisis Response			-	695,338
Improving the Health of Americans Through Prevention and Management				
of Diabetes and Heart Disease and Stroke	702	93.426	637,106	1,103,842
Food Safety and Security Monitoring Project	580	93.448	-	159,750
PPHF Capacity Building Assistance to Strengthen Public Health				
Immunization Infrastructure and Performance - financed in part				
by Prevention and Public Health Funds	758	93.539	-	23,377
Community-Based Child Abuse Prevention Grants	270	93.590	364,615	515,296
Developmental Disabilities Basic Support and Advocacy Grants	240	93.630	-	452,807
State Public Health Approaches for Ensuring Quitline Capacity -				
funded in part by Prevention and Public Health Funds	701	93.735	54,000	54,000
Medicaid Cluster:				
State Survey and Certification of Health Care Providers and				
Suppliers (Title XVIII) Medicare	221, 380, 387	93.777	-	3,572,499
Medical Assistance Program	662	93.778	-	458,965
Subtotal Medicaid Cluster			*	4,031,464

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
State Targeted Response to the Opioid Crisis	654	93.788	* \$ 2,939,102	\$ 3,490,944
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	754	93.817	-	83,755
Maternal, Infant and Early Childhood Home Visiting Grant Program	602	93.870	1,943,539	2,434,900
National Bioterrorism Hospital Preparedness Program:				
COVID 19 National Bioterrorism Hospital Preparedness Program	435	93.889	-	12,924
National Bioterrorism Hospital Preparedness Program	435	93.889	926,201	1,244,593
Subtotal National Bioterrorism Hospital Preparedness Program			926,201	1,257,517
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	448	93.898	675,019	1,021,987
Personal Responsibility Education Program	613	93.902	95,198	209,594
Grants to States for Operation of Offices of Rural Health	299	93.913	14,985	171,871
HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)	293	93.917	* 3,231,068	3,231,068
HIV Prevention Activities - Health Department Based	266	93.940	600,932	1,649,744
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	319	93.946	17,231	155,456
Block Grants for Community Mental Health Services	various	93.958	* 1,000,893	2,726,098
Block Grants for Prevention and Treatment of Substance Abuse	34204, 35204	93.959	* 7,488,565	7,550,684
Preventive Health Services - Sexually Transmitted Diseases Control Grants	268	93.977	-	431,358
Crisis Counseling	390, 658, 659	93.982	62,172	62,172
Preventive Health and Health Services Block Grant	36203, 37203	93.991	293,081	1,218,543
Maternal and Child Health Services Block Grant to the States Improvement	various	93.994	22,701	1,931,194
Hawaii State Mental Health Data Infrastructure Grants for Quality Improvement	318	93.UNKNOWN	-	107,351
Hawaii Tobacco State Enforcement Contract	633	93.FAR 52.217-9	211,360	315,583
Electronic Death Registration	208	93.UNKNOWN	-	15,487
Vital Statistics Cooperative Program (VSCP) Special Project	285	93.UNKNOWN	-	239,344
Total Department of Health and Human Services Programs			31,362,820	80,328,965
Department of Agriculture				
Direct Programs:				
NAHLN Level 3 Designation Agreement	598	10.304	-	46,090
Special Supplemental Nutrition Program for Women, Infants and Children	275, 295	10.557	* 3,396,604	24,732,932
WIC Grants To States (WGS)	740, 741, 790	10.578	590,434	648,528
Total Department of Agriculture Programs			3,987,038	25,427,550

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Environmental Protection Agency				
Direct Programs:				
Air Pollution Control Program Support	233	66.001	\$ -	\$ 895,283
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	294	66.034	-	165,947
State Clean Diesel Grant - Retrofit	328	66.040	-	93,236
Water Pollution Control State, Interstate, and Tribal Program Support	231, 237, 601	66.419	-	2,112,520
State Public Water System Supervision	232	66.432	-	408,699
Water Quality Management Planning	various	66.454	-	35,198
Capitalization Grants for Clean Water State Revolving Funds	various	66.458	*	12,431,000
Nonpoint Source Implementation Grants	various	66.460	-	1,550,028
Capitalization Grants for Drinking Water State Revolving Funds	various	66.468	*	15,307,112
Beach Monitoring and Notification Program Implementation Grants	8291	66.472	-	247,871
Environmental Information Exchange Network Grant Program and Related Assistance	570	66.608	-	232,036
Toxic Substances Compliance Monitoring Cooperative Agreements	243	66.701	-	69,960
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	330	66.707	-	278,818
Hazardous Waste Management State Program Support	230	66.801	-	490,800
Superfund State, Political Subdivision, and Indian Tribe Site- Specific Cooperative Agreements	394	66.802	-	323,459
Underground Storage Tanks Prevention, Detection and Compliance Program	339	66.804	-	294,183
Leaking Underground Storage Tank Trust Fund Corrective Action Program	258	66.805	-	261,910
State and Tribal Response Program Grants	360	66.817	-	919,937
Total Environmental Protection Agency Programs			-	36,117,997
Department of Education				
Direct Program--				
Special Education - Grants for Infants and Families	213	84.181	106,163	2,207,068
Total Department of Education Programs			106,163	2,207,068
Department of Defense				
Direct Program--				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	245	12.113	-	418,147
Total Department of Defense Programs			-	418,147

* Denotes Major Federal Program

Department of Health
State of Hawaii
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Project Number	Federal CFDA Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Transportation				
Direct Program--				
Interagency Hazardous Materials Public Sector Training and Planning Grants	641	20.703	-	135,945
Total Department of Transportation Programs			-	135,945
Total Expenditures of Federal Awards			\$ 35,456,021	\$ 144,635,672

Department of Health State of Hawaii

Notes to Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the State of Hawaii, Department of Health (the Department) under programs of the federal government for the fiscal year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, change in net position, or cash flows of the Department.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported 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.

3. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2020. 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	\$ 39,328,141
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 43,148,181

4. Noncash Awards

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately \$13,660,000 in vaccines for the Immunization Cooperative Agreements Program for the fiscal year ended June 30, 2020.

5. Indirect Cost Rate

The Department has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

PART II

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



A Hawaii Limited Liability Partnership

**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 30, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2020-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questions costs as Finding No. 2020-002 to be a significant deficiency.

Compliance and Other Matters

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

Department's Response to Findings

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

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii

March 30, 2021

PART III

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE



A Hawaii Limited Liability Partnership

**Report on Compliance for Each Major Federal Program and on Internal
Control over Compliance Required by Uniform Guidance**

Independent Auditor's Report

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii, Department of Health's (Department's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the fiscal year ended June 30, 2020. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Department's compliance.

Basis for Qualified Opinion on Major Federal Programs Identified in the Table Below

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

CFDA Number	Name of Federal Program	Compliance Requirement	Ref. No.
93.958	Block Grants for Community Mental Health	Reporting	2020-003
93.958	Block Grants for Community Mental Health	Subrecipient Monitoring	2020-004
10.557	Special Supplemental Nutrition Program for Woman, Infants and Children	Cash Management	2020-005

Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

Qualified Opinion on the Major Federal Programs in the Table Above

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the Basis for Qualified Opinion paragraph for the fiscal year ended June 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the table below for the fiscal year ended June 30, 2020:

CFDA Number(s)	Name of Federal Program
93.044, 93.045, 93.053	Aging Cluster
93.268	Immunization Cooperative Agreements
93.777, 93.778	Medicaid Cluster
93.788	State Targeted Response to the Opioid Crisis

CFDA Number(s)	Name of Federal Program
93.917	HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)
93.959	Block Grants for Prevention and Treatment of Substance Abuse
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Other Matters

The Department's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned

costs as Finding No. 2020-003 through 2020-005, that we consider to be material weaknesses.

The Department's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

KMH LLP

KMH LLP

Honolulu, Hawaii

March 30, 2021, except for our unmodified opinion on the Medicaid Cluster (93.777, 93.778), for which the date is May 7, 2021

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? √ Yes ___ No

- Significant deficiency(ies) identified that are not considered to be material weaknesses? √ Yes ___ None reported

Noncompliance material to financial statements noted? ___ Yes √ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? √ Yes ___ No

- Significant deficiency(ies) identified? ___ Yes √ None reported

Type of auditor’s report issued on compliance for major federal programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? √ Yes ___ No

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2020

Section I – Summary of Auditor’s Results (continued)

Identification of major federal programs:

CDFA Number	Name of Federal Program
Department of Health & Human Services	
Aging Cluster:	
93.044	Special Programs for Aging – Title III Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for Aging – Title III Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
93.268	Immunization Cooperative Agreements
Medicaid Cluster:	
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.788	State Targeted Response to the Opioid Crisis
93.917	HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
Environmental Protection Agency	
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
Department of Agriculture	
10.557	Special Supplemental Nutrition Program for Woman, Infants and Children

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

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2020

Section II – Financial Statement Findings

Finding No.: 2020-001 Clean Air Permit Fees - Untimely Deposits and Lack of Reconciliation Process

Type of Finding: Material Weakness

Criteria: In accordance with Governmental Accounting Standards Board Statement No. 34, fund financial statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus/basis, revenues are recognized only to the extent that they are susceptible to accrual. Revenues are recorded when earned, regardless of the timing of related cash flows.

Condition: During our audit, it was determined that clean air permit fee receipts were not deposited on a timely basis, which resulted in taxes, fees, fines and other revenue for other governmental funds being understated. As a result, we proposed and management accepted an adjustment related to clean air permit revenues for approximately \$3.4 million. The adjustment was recorded in the Department's financial statement as of June 30, 2020.

Context: Air pollution control permit holders are required to pay annual clean air permit fees based on the type and amount of emissions. For the year ended June 30, 2020, clean air permit revenues totaled approximately \$4.2 million from approximately 150 permits. Management provided a listing of clean air permit fees collected for the year ended June 30, 2020, which included information on date of collection, date of deposit, and amount of fees, and was tested during the audit. Based on this listing, the Department experienced significant delays in the timing between the receipts of payments to the deposits of such payment, which ranged from 32 to 195 days. According to management, the payments awaiting deposit were maintained in a secure location. We compared the listing of clean air permit fees collected to Financial Accounting Management Information Systems (FAMIS) to determine the deposits that should be recognized in FAMIS for the year ended June 30, 2020.

Cause: According to management, the deposit delays were caused by staffing constraints and the COVID-19 pandemic. In addition, the Department does not reconcile the clean air permit revenues from the listing of clean air permit fees collected to FAMIS.

Effect: The untimely deposits and the absence of a reconciliation process increases the risk of material misstatement as demonstrated by the results of this year's audit.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2020

Section II – Financial Statement Findings (continued)

Identification as a Repeat Finding, if applicable: Not applicable

Recommendations: Management should ensure timely deposits of clean air permit fees received and reconcile fees from the detailed listing of clean air permit fees collected to FAMIS.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2020

Section II – Financial Statement Findings (continued)

Finding No.: 2020-002 Reliance on Third Party Certifications

Type of Finding: Significant Deficiency

Criteria: Section 342G-105, Hawaii Revised Statutes (HRS), states that payment of the deposit beverage container fee and deposits shall be made monthly, based on inventory reports of the deposit beverage distributors. All deposit beverage distributors shall submit to the Department documentation in sufficient detail that identifies the net number of deposit beverage containers sold, donated, or transferred, by container size and type.

In addition, Section 342G-110, HRS, specifies that the deposit on each filled deposit beverage container shall be paid by the beverage distributor, who manufactures or imports beverages in deposit beverage containers. Beverage distributors shall also pay a deposit beverage container fee and register with the State.

Section 342G-119, HRS, specifies that the Department shall pay certified redemption centers handling fees and deposit refunds based on collection reports submitted by the redemption centers. The redemption reports include the number or weight of deposit beverage containers of each material type accepted at the redemption center for the reporting period; the amount of refunds paid out by material type; the number or weight of deposit beverage containers of each material type transported out of state or to a permitted recycling facility; and copies of out-of-state transport and weight receipts or acceptance receipts from permitted recycling facilities. Additionally, Section 11-282-47, Hawaii Administrative Rules, states that the Department shall pay certified redemption centers handling fees and refund values based on reports submitted by the redemption centers to the Department.

Section 342G-103, HRS, requires all beverage distributors operating within the State to register with the Department and maintain records reflecting the manufacture of their beverages in deposit beverage containers as well as the importation and exportation of deposit beverage containers. The records shall be made available, upon request, for inspection by the Department.

Similarly Section 342G-121, HRS, requires distributors and redemption centers to make their records available upon request by the Department, a duly authorized agent of the Department, or the Office of the Auditor.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2020

Section II – Financial Statement Findings (continued)

Condition: The Deposit Beverage Container Program (Program) receives beverage container deposits and container fees from distributors and refunds deposits and pays handling fees to redemption centers based on certified information. The Program relies on certifications from distributors to support deposits and container fees received. The Program also relies on certifications from redemption centers to support deposit refunds and handling fees paid.

Context and Cause: As noted below, this is a recurring finding. The Department still is in progress with its corrective action plans.

Effect: Overreliance on the self-reporting by distributors and redemption centers may result in underpayments on deposits and the related container fees received by the Department to administer the program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate. An overstated redemption rate could result in a misstatement in the Department's financial statements, as well as higher container fees for consumers to support the program.

The Program could mitigate the risk of fraud (underpayments by distributors and overpayments to redemption centers) by implementing a systematic process for monitoring the activities of and reports submitted by distributors and redemption centers. According to management, the Program has been unable to establish a systematic monitoring process due to insufficient staff positions and turnover.

Identification as a Repeat Finding, if applicable: See finding 2019-002 included in the Summary Schedule of Prior Audit Findings.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2020

Section II – Financial Statement Findings (continued)

Recommendation: We recommend that the Program perform the following: (1) develop a risk-based process to select distributor and redemption center reports submitted to the Program to audit on a periodic basis; (2) summarize the results of distributor and redemption center audits and assess whether enforcement actions should be considered to ensure amounts that are being reported are appropriate; (3) modify the Program requirements in order to increase distributors' accountability for information provided to the Program; and (4) for redemption centers, the Program should consider having all redemption centers install reverse vending machines or some type of "mechanical devices" at all locations.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2020

Section III – Federal Award Findings and Questioned Costs

Finding No.:	2020-003	Reporting
Federal Agency:		Department of Health and Human Services (DHHS)
CFDA No.:		93.958
Requirement:		Reporting
Type of Finding:		Material Noncompliance and Material Weakness
Program:		Block Grants for Community Mental Health Services
Federal award no. and year:	2B09SM010015-18	10/01/17 – 09/30/19

Criteria: 2 CFR Section 200.327 states that "(financial) information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances." Under this reporting requirement, the program must submit a Federal Financial Report (FFR) within 90 days after the close of the statutory grant period.

Condition: Reporting requirements for one FFR was not met.

Context: The program was required to submit one FFR during FY2020. During the audit, we noted that the FFR was submitted 438 days after the end of the award period.

Cause: Based on further inquiry with Department personnel, we noted that the delay in submission was caused by a lack of personnel available to monitor reporting requirements and complete reporting requirements timely.

Effect: Failure to timely submit reports results in noncompliance with the reporting requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

Recommendation: We recommend program management be more diligent in following Federal deadlines in order to ensure compliance with Federal requirements.

Views of Responsible Officials and Planned Corrective Action: See Part VI Corrective Action Plan.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2020

Section III – Federal Award Findings and Questioned Costs (continued)

Finding No.: 2020-004	Monitoring Procedures and Risk Assessment Process
Federal Agency:	Department of Health and Human Services (DHHS)
CFDA No.:	93.958
Requirement:	Subrecipient Monitoring
Type of Finding:	Material Noncompliance and Material Weakness
Program:	Block Grants for Community Mental Health Services
Federal award no. and year:	2B09SM010015-18 10/01/17 – 09/30/19

Criteria: In accordance with 2 CFR section 200.331, all pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. In addition, all pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Condition: Although the program complied with its monitoring procedures by obtaining the required single audit report of its subrecipient who expended more than \$750,000 during the year, it did not complete its review and evaluation of the report in a timely manner. As a result, the subrecipient did not complete and submit a single audit report timely (i.e. within 9 months of year-end).

Context: The program had two subrecipients in FY2020, including one subrecipient that expended more than \$750,000 during the year. This subrecipient was not adequately monitored during FY2020 and as a result, did not complete a single audit report within nine months of its year-end.

Cause: According to management, the monitoring and evaluation of the single audit reports were not completed in a reasonably timely manner due to a lack of personnel.

Effect: Failure to properly monitor subrecipients has led to noncompliance with the subrecipient monitoring requirement.

Questioned Costs: None

Identification as a Repeat Finding, if applicable: Not applicable

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2020

Section III – Federal Award Findings and Questions Costs (continued)

Recommendation: We recommend the Department be more diligent in following its procedures and internal controls to ensure compliance with Federal requirements.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

Department of Health State of Hawaii

Schedule of Findings and Questioned Costs
June 30, 2020

Section III – Federal Award Findings and Questions Costs (continued)

Finding No.: 2020-005	Cash Management
Federal Agency:	Department of Health and Human Services (DHHS)
CFDA No.:	10.557
Requirement:	Cash Management
Type of Finding:	Material Noncompliance and Material Weakness
Program:	Special Supplemental Nutrition Program for Woman, Infants, and Children
Federal award no. and year:	7HI700HI7 10/01/2018 – 09/30/2019 10/01/2019 – 09/30/2020

Criteria: In accordance with 2 CFR section 200.305(a), for states, payments are governed by Treasury-State Cash Management Improvement Act (CMIA) agreement, for programs specified in the agreement. The federal program noted above, was subjected to the agreement. The CMIA agreement provides guidance on funding techniques that are required to be utilized by the program. In accordance with the CMIA agreement, for Direct Administrative and Payroll costs, a pre-issuance technique, which requires payments to be distributed within three business days of draw down of funds.

Condition: During the testing of the Department's cash management procedures, it was determined that payments were not distributed within three business days of the draw down of funds, as required by the CMIA agreement. Also, the related control, which required the draw down to be reviewed, was not operating effectively.

Context: During the fiscal year ended June 30, 2020, the Department expended \$10,295,506 (excluding food expenditures).

Cause: The Department draws down federal funds that it estimates will be needed based on the expenditures that must be paid. However, since deposits must be posted prior to the processing of payments or disbursing of the funds, it is difficult for the Department to disburse federal funds in accordance with the CMIA Agreement.

Effect: Noncompliance with federal regulations could result in a loss of funding that may jeopardize the operations of the Department's federally funded programs.

**Department of Health
State of Hawaii**

Schedule of Findings and Questioned Costs
June 30, 2020

Section III – Federal Award Findings and Questions Costs (continued)

Questioned Costs: None

Identification as a Repeat Finding, if applicable: See finding 2019-004 included in the Summary Schedule of Prior Audit Findings.

Recommendation: We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure compliance with established standard and timely disbursement of federal funds in accordance with CMIA Agreement.

Views of Responsible Officials and Planned Corrective Action: See Part VI Correction Action Plan.

SUMMARY OF PRIOR AUDIT FINDINGS

Department of Health

State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2020

STATUS REPORT

This section contains the current status of prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2019, dated March 25, 2020.

Recommendations

Status

Part II – Financial Statement Findings

2019-001 Financial Statement Reporting – Deposit Beverage Container Program

Management should perform reconciliations of the deposit beverage container deposit revenues and be more diligent in the identification of accruals for significant or unusual transactions.

The Department's Office of Solid Waste Management (OSWM) onboarded two additional Account Clerks and one additional Accountant to strengthen its accounting section. In FY 2020, OSWM had timely reconciled its deposit beverage container revenues both internally and into FAMIS. OSWM expects to continue to reconcile its account in a timely manner going forward.

This finding is no longer applicable.

2019-002 Reliance on Third Party Certifications

We recommend that the Program implement a systemic process and direct Department personnel to oversee distributors and redemption centers, including conducting regular audits of reports submitted and payments made by distributors and reports submitted for deposit refund and handling fee requests from redemption centers.

OSWM has onboarded three additional accounting staff to improve the performance of its accounting section. In December 2019, OSWM filled its vacant supervisor position and in February 2021, OSWM filled one of its vacant inspector positions. In February 2021, OSWM executed a task order with the DOH Environmental Management Division's software developer to begin a multi-year/multi-phase project to modernize its data management and reporting systems. Reports that are currently submitted to OSWM via hard copy will instead be submitted online. This will reduce errors, improve data management, and free staff time to help analyze data for inconsistencies.

Department of Health
State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2020

Recommendations

Status

Part II – Financial Statement Findings (continued)

2019-002 Reliance on Third Party Certifications (continued)

In Fall 2020, OSWM implemented a pilot project to review individual customer receipts from certain redemption centers to check for discrepancies at a granular level. When OSWM's new inspector is fully trained, OSWM will begin regularly conducting inspections at redemption center facilities to ensure that the materials onsite correspond with reported amounts from the customer receipts review. OSWM will assess and adjust this pilot project as needed until it is fully implementable statewide.

The COVID-19 pandemic has had a significant impact in disrupting the State's economy. Due to these current economic uncertainties, OSWM has postponed releasing a Request for Proposals (RFP) for assistance with reviewing and reconciling distributor reports. As the State's financial future becomes clearer, including impacts from proposed legislation to withdraw funds from the Deposit Beverage Container special fund or eliminate it altogether, OSWM will release its RFP.

Corrective action is ongoing. Refer to finding 2020-002.

Department of Health

State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2020

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs

2019-003 Monitoring Procedures and Risk Assessment Process

We recommend that management revise its documented monitoring procedures to include a timeframe specifying the number of months after receiving the audited single audit reports that the review and evaluation procedures should be completed by. We also recommend that management establish a formal, documented risk assessment policy in order to support which subrecipients are chosen and how they are monitored.

Reminder letters were sent to providers and contractors three months prior to the end of the contract year. ADAD accountants managing each contract reviews the independent audits, completes the checklist then sends the audit and checklist to the administrative officer for review and final approval.

This finding is no longer applicable.

2019-004 Cash Management

We recommend that the Department work with DAGS and B&F to ensure timely disbursement of federal funds in accordance with 31 CFR 205.

Due to the State's requirement for disbursing the drawdown of funds is a very cumbersome process, validated by multiple departments. The Department of Budget and Finance established the standard for the State's "Administratively Feasible Time" Period for cash drawdowns from the U.S. Treasury. Per the memo (see attachment), the "administratively Feasible Time Period" for Summary Warrant Vouchers (SWV) and Payroll are 21 calendar days and 15 calendar days, respectively.

Corrective action taken, but we noted through our testing that finding still applicable. Refer to finding 2020-005.

Department of Health
State of Hawaii

Summary Schedule of Prior Audit Findings
June 30, 2020

Recommendations

Status

Part III – Federal Award Findings and Questioned Costs (continued)

2019-005 Monitoring Procedures and Risk Assessment Process

We recommend program management develop formal policies and procedures to ensure compliance with Federal requirements.

Developed and published a documented Risk Assessment policy on 07/01/2020 and issued to Chronic Disease Prevention and Health Promotion Division.

This finding is no longer applicable

PART VI
CORRECTIVE ACTION PLAN

DAVID Y. IGE
GOVERNOR OF HAWAII



ELIZABETH A. CHAR, M.D.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH

P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

ASO-F/21-229

March 30, 2021

Mr. Leslie H. Kondo, State Auditor
Office of the Auditor, State of Hawaii
465 S. King Street, Room 500
Honolulu, Hawaii 96813

Subject: Response to Draft Report "Financial Audit of the Department of Health, State of Hawaii, for the Fiscal Year Ended June 30, 2020".

Dear Mr. Kondo:

Attached are the Department of Health's comments of the audit findings for the above mentioned audit of the Department of Health.

We appreciate the opportunity to comment on the report.

Sincerely,

Elizabeth A. Char, M.D.
Director of Health

Attachment

State of Hawaii
Department of Health
Corrective Action Plan Updates for Findings and Recommendations
For the State Fiscal Year Ended June 30, 2020

Page(s), Finding	Corrective Action Plans Updates, Status, Responding Official
<p>P93-94 2020-001</p>	<p><u>CAB's Planned Corrective Action on untimely deposits and Lack of Reconciliation Process.</u></p> <p>To address the Finding of this audit, CAB proposes to:</p> <ul style="list-style-type: none"> • Increase efforts to make deposits in a timely manner. • Reconcile annual fee logs to the Treasury Deposit Records and FAMIS, especially when a deposit is near or after June 30 of any year. <p><u>Make deposits in a timely manner</u> As is touched upon in the Cause section of the Finding, CAB has an unfilled Accountant position that is frozen due to the economic impacts of COVID-19. As a result, we continue to be understaffed. Regardless of that situation, we will place more emphasis on recording and depositing the fee checks as soon as possible.</p> <p><u>Reconcile annual fee tracking</u> We are currently associating payments with the proper accrual period by using the Deposit Date field in our paid logs. Beginning April 1, 2021, we will reconcile our internal log with the Treasury Deposit Records from the Environmental Resources Office (ERO) and with FAMIS/Datamart. In the first half of the calendar year, we will reconcile monthly; we will reconcile more frequently, as needed, near and after June 30.</p> <p><u>Implementation Date:</u> April 1, 2021</p> <p><u>Responding Official:</u> Barry Ching, Supervisor, Planning & Administrative Support Staff, Environmental Management Division, Clean Air Branch</p>
<p>P95-97 2020-002</p>	<p><u>Corrective Action Plan Task 1: Risk-Based Redemption Center Inspections</u></p> <p>In 2020 OSWM implemented a pilot project to review individual customer receipts from two small redemption centers to check for discrepancies at a granular level. These receipts were then cross-referenced with redemption and subsequent shipping reports from the redemption centers to ensure fidelity of the receipts. In February 2021 OSWM hired an additional inspector. When OSWM's new inspector is fully trained, and it is safe due to COVID-19, the new hire will</p>

begin conducting regular inspections at redemption center facilities to ensure that the materials onsite correlate with reported amounts from the customer receipt reviews.

OSWM will assess and adjust this pilot project as needed until it can be scaled up and implemented statewide. At that time OSWM will systematically identify redemption centers using a risk-based analysis and conduct customer receipt reviews and corresponding facility inspections to prevent fraud and address the audit finding.

Implementation Date: In 2020 OSWM began customer receipt reviews and in February 2021 OSWM onboarded a new inspector. OSWM anticipates that it will begin conducting receipt reviews coupled with facility inspections by the end of this fiscal year (June 2021).

Corrective Action Plan Task 2: Risk-Based Distributor Inspections

The COVID-19 pandemic has had a significant impact in disrupting the State's economy. Due to these current economic uncertainties, OSWM has postponed releasing a Request for Proposals (RFP) for assistance with identifying distributors on a risk-basis and cross-referencing their self-certified reports submitted to OSWM with sales data from retailers. As the State's financial future becomes clearer, including impacts from proposed legislation to withdraw funds from the Deposit Beverage Container special fund or eliminate it altogether, OSWM will release its RFP.

Implementation Date: OSWM anticipates releasing its RFP in the next fiscal year pending fund availability.

Corrective Action Plan Task 3: Data Management Modernization

In February 2021 OSWM executed a task order with the DOH Environmental Management Division's software developer to begin a multi-year/multi-phase project to modernize and overhaul its data management and reporting systems. Reports that are currently submitted to OSWM via hard copy and manually transcribed will instead be submitted via an online portal. This will reduce transcription errors and improve data management, along with other benefits. Most impactful is that by automating much of the data management processes, Deposit Beverage Container (DBC) Program accounting staff are freed up to conduct risk-based analysis of the data, identify inconsistencies, and refer discrepancies to the DBC Program enforcement staff for follow-up and corrective action.

	<p><u>Implementation Date:</u> Implementation of OSWM's data management upgrades began in February 2021. OSWM anticipates that it will take up to three years to complete, pending funding.</p> <p><u>Responding Officials:</u> Michael Burke/Solid Waste Coordinator</p>
P98 2020-003	<p><u>Corrective Action Taken or Planned on FFR reporting:</u></p> <p>The Department of Health's Adult Mental Health Division (AMHD) is recruiting for one Accountant and requesting approval to recruit for two additional Accountant positions to fill vacant positions in its Fiscal Section. AMHD expects to meet future Federal Financial Report requirements as the vacant Accountant positions are filled.</p> <p><u>Implementation Date:</u> FY 2022</p> <p><u>Responding Official:</u> Amy Yamaguchi/Administrative Officer/AMHD</p>
P99-100 2020-004	<p><u>Corrective Action Taken or Planned Subrecipient Monitoring:</u></p> <p>AMHD will send reminder letters to providers notifying them of submitting required reports three months prior to the end of the contract year. AMHD staff will review and evaluate each single audit report and a checklist will be completed and submitted to the AMHD Program Support Services Manager for final review and approval.</p> <p><u>Implementation Date:</u> Next Financial Audit for the Period Ending June 30, 2021 for the Department of Health.</p> <p><u>Responding Officials:</u> Amy Curtis/AMHD Administrator/AMHD and Yara Sutton/AMHD Program Support Services Manager/AMHD</p>
P101-102 2020-005	<p><u>Corrective Action Taken or Planned on Cash Management:</u></p> <p>WIC revised its Standard Operating Procedures, which now requires the Administration Officer to review and approve the Accountant's draw request from the ASAP Account and deposit into the State Treasury.</p> <p><u>Implementation Date:</u> November 1, 2020</p> <p><u>Responding Officials:</u> Melanie Murakami/Public Health Program Manager and Paul Uchima/WIC Services Administrative Officer</p>