STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaiʻi 96813-2917

DEPT. COMM. NO. 416

LESLIE H. KONDO
State Auditor
(808) 587-0800
lao.auditors@hawaii.gov

June 30, 2026

VIA EMAIL

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawaiʻi State Capitol, Room 409
Honolulu, Hawaiʻi 96813

VIA EMAIL

The Honorable Nadine K. Nakamura
Speaker, House of Representatives
415 South Beretania Street
Hawaiʻi State Capitol, Room 431
Honolulu, Hawaiʻi 96813

RE: Financial and Compliance Audit of the Department of Health

Dear President Kouchi and Speaker Nakamura:

The audit report on the financial statements and compliance of the Department of Health for the fiscal year ended June 30, 2025, was issued on March 30, 2026. The Office of the Auditor retained Accuity LLP to perform the financial and compliance audit. For your information, we are attaching a copy of the three-page Auditor's Summary of the financial and compliance audit report.

You may view the financial and compliance audit report and Auditor's Summary on our website at:

https://files.hawaii.gov/auditor/Reports/2025_Audit/DOH2025.pdf; and

https://files.hawaii.gov/auditor/Reports/2025_Audit/DOH_Summary_2025.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:LYK:lml

cc/attach: Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Health

Financial Statements, Fiscal Year Ended June 30, 2025



PHOTO: OFFICE OF THE AUDITOR

THE PRIMARY PURPOSE *of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Health, as of and for the fiscal year ended June 30, 2025, and to comply with Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Accuity LLP.*

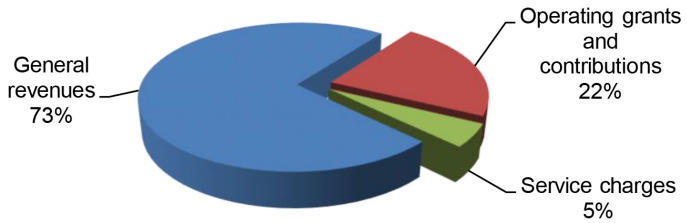
About the Department

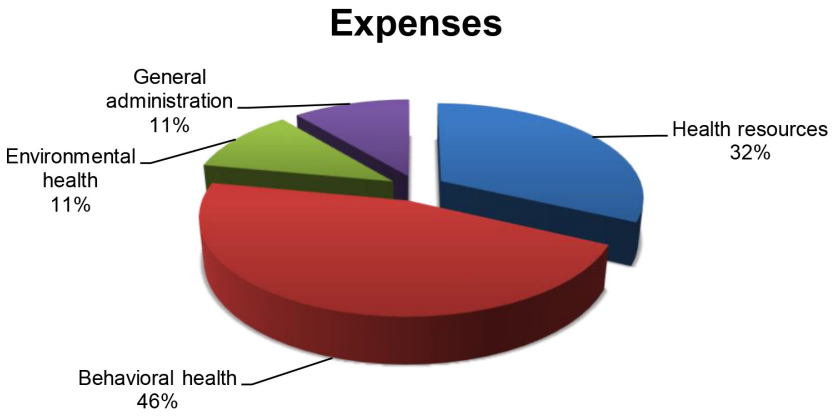
The mission of the Department of Health (DOH) is to protect and improve the health and environment for all people in Hawai'i. DOH administers and oversees statewide personal health services, health promotion and disease prevention, mental health programs, monitoring of the environment, and the enforcement of environmental health laws. It administers federal grants to support the State's health services and programs and is organized into four major administrations: Behavioral Health Services Administration, Health Resources Administration, Environmental Health Administration, and General Administration.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2025, DOH reported total revenues of $1.22 billion and total expenses of $1.1 billion, resulting in an increase in net position of $122.3 million. Revenues included $889 million from general revenues, $269.7 million from operating grants and contributions, and $67.1 million from service charges.

Sources of Revenues





Expenses included $353 million for health resources, $513.1 million for behavioral health, $116.6 million for environmental health, and $120.8 million for general administration.

As of June 30, 2025, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $1.56 billion. Total assets and deferred outflows of resources of $1.8 billion included (1) cash of $706.8 million, (2) receivables of $77.3 million, (3) loans receivable of $762.7 million, (4) accrued interest and loan fees of $5.1 million, (5) deferred outflows of resources of $2.7 million, and (6) net capital assets of $250.6 million. Total liabilities and deferred inflows of resources totaled $242.3 million. DOH's net position of $1.56 billion is comprised of a restricted amount of $1.03 billion, of which $945.4 million is for loans; an unrestricted amount of $293.1 million; and net investment in capital assets of $237.1 million.

Auditors' Opinions

DOH RECEIVED AN UNMODIFIED OPINION that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOH received a qualified opinion on its compliance for all major federal programs, except for Special Supplemental Nutrition Program for Women, Infants and Children; Capitalization Grants for Clean Water State Revolving Funds; Capitalization Grants for Drinking Water State Revolving Funds; Medicaid Cluster; and Maternal, Infant and Early Childhood Home Visiting Grant Program, which received an unmodified opinion in accordance with the *Uniform Guidance*.

Findings

THERE WAS ONE MATERIAL WEAKNESS in internal control over financial reporting that was required to be reported under *Government Auditing Standards*.

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. The material weakness is described on page 73 of the report.

There were four material weaknesses and ten significant deficiencies in internal control over compliance that were required to be reported in accordance with the *Uniform Guidance*. The material weaknesses are described on pages 75-76, 81, 83, and 88 of the report and the significant deficiencies are described on pages 77-80, 82, 84-87, and 89 of the report.

A material weakness in internal control over compliance is a deficiency, or a 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.

Link to the complete report:
Financial and Compliance Audit
https://files.hawaii.gov/auditor/Reports/2025_Audit/DOH2025.pdf

Department of Health
State of Hawaii

Financial and Compliance Audit

June 30, 2025



Submitted by
The Auditor
State of Hawaii

Department of Health
State of Hawaii
Index
June 30, 2025

Page(s)

PART I – FINANCIAL STATEMENTS 1

Report of Independent Auditors 2–4

Management's Discussion and Analysis (Unaudited) 5–12

Financial Statements

Statement of Net Position 13

Statement of Activities 14

Balance Sheet – Governmental Funds 15

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 16

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 17

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 18

Statement of Net Position – Proprietary Funds 19

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds 20

Statement of Cash Flows – Proprietary Funds 21

Statement of Fiduciary Net Position – Private-Purpose Trust Fund 22

Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Fund 23

Notes to Financial Statements 24–50

Required Supplementary Information Other than Management's Discussion and Analysis (Unaudited) 51

Schedule of Revenues and Expenditures – Budget and Actual – General Fund 52

Schedule of Revenues and Expenditures – Budget and Actual – Deposit Beverage Container Deposit Fund 53

Note to Required Supplementary Information 54–55

Supplementary Information 56

Schedule of Expenditures of Federal Awards 57–60

Notes to Schedule of Expenditures of Federal Awards 61

Department of Health
State of Hawaii
Index
June 30, 2025

Page(s)

PART II – COMPLIANCE AND INTERNAL CONTROL 62

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 63–64

Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance 65–68

Schedule of Findings and Questioned Costs 69

Section I – Summary of Auditors' Results 70–71

Section II – Financial Statement Finding 72–73

Section III – Federal Award Findings and Questioned Costs 74–89

Corrective Action Plan Letter 90

Summary Schedule of Prior Audit Findings 91–93

Corrective Action Plan 94–101

PART I
Financial Statements

Report of Independent Auditors

The Auditor
State of Hawaii

Opinions
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the "Department"), as of and for the year ended June 30, 2025 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the index.

In our opinion, 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, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters
As discussed in Note 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 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, 2025, and the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As described in Note 2, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, as of July 1, 2024. Our opinions are not modified with respect to these matters.

Responsibilities of Management 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 and for 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.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Revenues and Expenditures – Budget and Actual – General Fund, and Schedule of Revenues and Expenditures – Budget and Actual – Deposit Beverage Container Deposit Fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the

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

ACCUITY

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. As described in Note 1 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2026 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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.

Accuity LLP

Honolulu, Hawaii
March 30, 2026

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

This discussion and analysis of the financial performance of the State of Hawaii, Department of Health (the "Department") provides an overview and analysis of the financial activities of the Department for the year ended June 30, 2025. The intent of this discussion is to allow management to provide an objective and easily readable analysis of the financial activities of the Department based on currently known facts, decisions, or conditions. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and other supplementary information.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Management's Discussion and Analysis serves as an introduction to the basic financial statements of the Department. 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 a broad overview of the finances of the Department using the economic resources measurement focus and accrual basis of accounting, in a manner similar to private-sector businesses. The statement of net position provides both short-term and long-term information about the overall financial status of the Department, 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 are as follows:

- The *statement of net position* includes all of the assets, deferred outflows, liabilities and deferred inflows of the Department, with the difference reported as net position. This statement is similar to that of the balance sheet of a private-sector business. Over time, increases or 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. This statement also provides information on how services were financed in the short-term as well as what remains for future spending.

- The *statement of activities* presents information showing how net position changed during the fiscal year. All changes in net position are reported using the accrual method of accounting, similar to the method used by most private-sector businesses. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are reported when the goods or services are received, regardless of the timing of the related cash flows. The activities of the Department are principally supported by appropriations made available by the State Legislature and intergovernmental revenues from the federal government (governmental activities).

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

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

Fund Financial Statements
The fund financial statements 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 No. 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.

All of the funds of the Department are divided between governmental funds, proprietary funds, or fiduciary funds. Governmental funds are used to account for most, if not all, of a government entity's tax-supported activities funded primarily from appropriations from the State of Hawaii, beverage container deposit program collections, and federal grants and are presented on the modified accrual basis of accounting. Proprietary funds consist of revolving loan funds and are reported similar to business activities. Fiduciary funds are used to account for custodial funds that are held by a government entity for parties outside of the government entity. The resources of fiduciary funds cannot be used to support the government entity's own programs. The proprietary and fiduciary funds are presented on the accrual basis of accounting.

The fund financial statements of the Department include the following types of funds:

- *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of expendable resources as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government entity's near-term financing requirements. By comparing the governmental funds and government-wide financial statements, readers may better understand the long-term impact of the entity's near-term financing decisions. In order to facilitate a comparison between the governmental funds and government-wide financial statements, a reconciliation between the two is provided following each of the governmental funds financial statements.

- *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* consist of private-purpose trust funds for assets held by the Department in its role as custodian until the funds are distributed to the individuals, private organizations, or government agencies to which they belong. These activities are excluded from the government-wide financial statements of the Department because the Department cannot use these assets to finance its operations.

Notes to the Basic Financial Statements
The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements follow the basic financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Department's total net position increased from $1,480.8 million as of June 30, 2024 to $1,562.8 million as of June 30, 2025, or by approximately $82.0 million, including a $40.3 million adjustment to beginning net position for the adoption of GASB Statement No. 101, *Compensated Absences*, as of July 1, 2024. The total increase in net

position was attributed to an increase in the Department's governmental activities net position of $79.8 million and an increase in the business-type activities' net position of $42.6 million during the year.

The Department's governmental activities reported an increase in net position of approximately $79.8 million during the year totaling $617.2 million at June 30, 2025, compared to net position at June 30, 2024 of $576.1 million.

The Department's proprietary funds, consisting of two revolving loan funds, reported an increase in net position of $42.6 million for fiscal year ("FY") 2025. Total net position was $904.6 million at June 30, 2024 compared to $945.6 million at June 30, 2025.

The following table presents a condensed government-wide statement of net position of the Department as of June 30, 2025 and 2024.

Condensed Statement of Net Position
June 30, 2025 and 2024
(*in thousands*)

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Assets						
Current assets	$ 592,459	$ 554,169	$ 266,117	$ 211,509	$ 858,576	$ 765,678
Capital assets	250,471	257,384	168	120	250,639	257,504
Loans receivable, noncurrent	-	-	693,230	706,450	693,230	706,450
Total assets	842,930	811,553	959,515	918,079	1,802,445	1,729,632
Deferred outflows of resources	-	-	2,666	2,139	2,666	2,139
Liabilities						
Current liabilities	158,079	206,408	1,475	1,515	159,554	207,923
Long term liabilities	67,644	28,997	13,620	12,807	81,264	41,804
Total liabilities	225,723	235,405	15,095	14,322	240,818	249,727
Deferred inflows of resources	-	-	1,518	1,284	1,518	1,284
Net position						
Net investment in capital assets	236,896	246,368	168	120	237,064	246,488
Restricted	87,232	71,940	945,400	904,492	1,032,632	976,432
Unrestricted	293,079	257,840	-	-	293,079	257,840
Total net position	$ 617,207	$ 576,148	$ 945,568	$ 904,612	$ 1,562,775	$ 1,480,760

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, 2025, the Department's total net position was approximately $1,562.8 million.

At June 30, 2025, in addition to equity in cash and cash equivalents in the State Treasury approximating $706.8 million, the Department had total loans receivable from county governments in the amount of $762.7 million arising from its two revolving loan funds. The Department had total liabilities of $240.8 million at June 30, 2025 of which $78.9 million relates to accrued compensated absences. Approximately $71.2 million in liabilities relate to vouchers and contracts payable. At June 30, 2025, restricted net position was $1,032.6 million. The restrictions arise from legal and contractual agreements.

Condensed Statement of Activities
Years Ended June 30, 2025 and 2024
(*in thousands*)

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues						
Program revenues						
Charges for services	$ 57,948	$ 39,250	$ 9,195	$ 9,337	$ 67,143	$ 48,587
Operating grants and contributions	209,166	227,289	60,591	54,074	269,757	281,363
General revenues						
State appropriated funds	692,449	532,121	-	-	692,449	532,121
Non-imposed fringe benefits	113,447	99,770	-	-	113,447	99,770
Hawaii tobacco settlement special fund	33,059	36,075	-	-	33,059	36,075
Environmental fees and taxes	49,996	48,861	-	-	49,996	48,861
Total revenues	1,156,065	983,366	69,786	63,411	1,225,851	1,046,777
Expenditures						
General administration	120,830	70,907	-	-	120,830	70,907
Environmental health	89,401	99,556	27,216	31,029	116,617	130,585
Behavioral health services	513,065	461,202	-	-	513,065	461,202
Health resources	352,989	354,976	-	-	352,989	354,976
Total expenditures	1,076,285	986,641	27,216	31,029	1,103,501	1,017,670
Change in net position	79,780	(3,275)	42,570	32,382	122,350	29,107
Net position						
Beginning of year, as previously reported	576,148	579,423	904,612	872,230	1,480,760	1,451,653
Adjustment for change in accounting principle	(38,721)	-	(1,614)	-	(40,335)	-
Beginning of year, as restated	537,427	579,423	902,998	872,230	1,440,425	1,451,653
End of year	$ 617,207	$ 576,148	$ 945,568	$ 904,612	$ 1,562,775	$ 1,480,760

Governmental activities increased the Department's governmental net position by $79.8 million in FY 2025, which was a 13.8% increase from FY 2024. The overall increase in governmental activities is the result of an increase in revenues offset by a smaller increase in expenditures. Revenues increased by $172.7 million and expenditures increased by $89.6 million.

Revenues of the Department's business-type activities, which increased by $6.4 million from FY 2024, 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 year ended June 30, 2025, business-type activities increased the Department's net position by $42.6 million to $945.6 million as compared to the year ended June 30, 2024.

Total government-wide expenditures for FY 2025 were $1,103.5 million, of which $1,076.3 million was for governmental activities. As compared to FY 2024, total government-wide expenditures were $1,017.7 million, of which $986.6 million was for governmental activities. Overall, the Department is organized into four major administrations.

The Department's Behavioral Health Services Administration expended 46.5% or $513.1 million of departmental funds with an increase of $51.9 million compared to FY 2024. 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") which includes the Hawaii State Hospital and Community Mental Health Center Branches;

- Child and Adolescent Mental Health Division which provides support and intensive mental health services to children and adolescents and their families through Family Guidance Centers across the state;

- Alcohol and Drug Abuse Division which plans, develops, coordinates and implements statewide plans and services related to alcohol and drug abuse, certifies substance abuse counselors and program administrators by accredited substance abuse programs, and provides for education, prevention, diagnostic, treatment and consultative services; and

- Developmental Disabilities Division that services disabled clients in Hawaii while addressing the conditions of the Makin Settlement.

The Department's Health Resources Administration expended 32.0% or $353.0 million of departmental funds with a decrease of $2.0 million compared to FY 2024. 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 healthy populations through public health nursing services;

- Disease Outbreak Control Division which provides immunization and disease investigation services as well as provides emergency response to disease outbreaks and potential acts of bioterrorism;

- Emergency Medical Services and Injury Prevention System Branch which minimizes death, injury and disability due to life-threatening situations by assuring the availability of high-quality emergency medical care through statewide, coordinated systems that provide emergency medical and injury prevention services, including the State's mandated Emergency Medical Services, which operates the emergency ambulance service in four major counties;

- 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;

- 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; and

- Office of Medical Cannabis and Control Regulation administers Hawaii's medical cannabis program, oversees patient registration and education, regulates dispensaries, and implements and enforces the State's hemp program.

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 10.6% or $116.6 million of the departmental funds with a decrease of $14.0 million expended compared to FY 2024 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 10.9% or $120.8 million of the departmental funds with an increase of $49.9 million expended compared to FY 2024.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The following table presents total revenues and expenditures of the governmental funds of the Department for the years ended June 30, 2025 and 2024 (*in thousands*):

	2025	2024
Revenues		
State general fund allotments	$ 692,450	$ 532,121
Intergovernmental	195,434	212,980
Non-imposed fringe benefits	113,447	99,770
Taxes, fees, fines and other	80,997	66,189
Deposit beverage container deposit special fund	33,808	31,184
Hawaii tobacco settlement special fund	33,059	36,075
Investment income	9,749	8,053
Settlement of opioid claims	9,300	15,513
Total revenues	1,168,244	1,001,885
Expenditures		
General administration	117,787	74,067
Environmental health	88,356	99,432
Behavioral health services	509,396	463,182
Health resources	356,730	351,032
Total expenditures	1,072,269	987,713
Excess of revenues over expenditures	$ 95,975	$ 14,172

The governmental funds revenue consists 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, settlement of claims, and investment income.

During the year ended June 30, 2025, general fund revenues were $794.2 million, including $113.3 million for fringe benefits paid directly from the State general fund. General fund expenditures were $734.5 million.

In FY 2025, the DBCDSF earned revenues of $33.8 million from beverage container deposit administrative fees and unredeemed containers income. Of this amount received, $21.5 million in expenditures were paid to redemption centers or utilized to fund the program. The fund collected $49.2 million in deposits from distributors and repaid $25.8 million in deposits to consumers during FY 2025.

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 2025, WPCRF received $22.0 million and $5.5 million of federal and state funds, respectively. WPCRF also disbursed $58.1 million in loan proceeds and collected $50.0 million in principal repayments in FY 2025. As compared to FY 2024, the fund collected $22.4 million and $3.5 million in federal and state contributions, respectively, disbursed $77.1 million in loan proceeds, and collected $47.7 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 2025, DWTRLF received $19.8 million and $6.2 million of federal and state funds, respectively. DWTRLF also disbursed $19.4 million in loan proceeds and collected $18.6 million in principal repayments in FY 2025. As compared to FY 2024, the DWTRLF collected $19.3 million and $3.6 million in federal and state contributions, respectively, disbursed $30.8 million in loan proceeds, and collected $16.1 million in principal payments.

BUDGETARY ANALYSIS

As required by Section 37-68, Hawaii Revised Statutes, the Department prepares a budget that becomes legally adopted when the State Legislature approves the executive budget with the enactment of an appropriations act. The budget information relating to the general fund for FY 2025 is presented below as additional financial information:

	Budgeted Amounts ($000)		Actual on a Budgetary
	Original	Final	Basis ($000)
General fund			
Revenues	$ 710,139	$ 687,938	$ 681,225
Expenditures			
General administration	95,416	95,416	81,770
Environmental health	41,381	29,840	33,035
Behavioral health	418,560	418,560	421,225
Health resources	154,782	144,122	145,195

CAPITAL ASSETS

As of June 30, 2025, the Department's governmental activities had invested approximately $250.5 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 year ended June 30, 2025.

Capital Assets, Governmental Activities
Years Ended June 30, 2025 and 2024
(*in thousands*)

	2025	2024
Land	$ 1,018	$ 1,018
Land improvements	6,826	6,826
Buildings and building improvements	410,353	409,166
Furniture and equipment	32,911	34,418
Right-of-use asset – buildings	5,686	5,686
Right-of-use asset – equipment	974	407
Subscription asset	12,521	7,634
Total	470,289	465,155
Accumulated depreciation	(213,489)	(204,726)
Accumulated amortization	(6,329)	(3,045)
Total capital assets, net	$ 250,471	$ 257,384

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

In FY 2025 and FY 2024, AMHD serviced 9,046 and 8,122 clients, respectively. 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 has been consolidated with the Behavioral Health Administration's Hawaii CARES program.

In the developmental disabilities program, the number of participants served by the Developmental Disabilities Division ("DDD") increased by 95 participants in FY 2025 over FY 2024. In FY 2025, the DDD served 3,419 participants compared to 3,324 in FY 2024.

The number of DDD participants enrolled in the 1915(c) Home and Community-Based Services ("HCBS") waiver increased by 92 participants in FY 2025 from FY 2024. In FY 2025, there were 2,976 participants enrolled in the HCBS waiver as compared to 2,884 participants in FY 2024.

Further, the Federal Medical Assistance Percentage ("FMAP") increased from 56.06% in federal FY 2023 to 58.56% in federal FY 2024. Due to the COVID-19 pandemic, the Families First Coronavirus Response Act provided an additional FMAP of 6.2% increase effective January 1, 2020 until the end of the quarter in which the Public Health Emergency period ends. Additionally, FMAP increased 0.52% from 58.56% in FY 2024 to 59.08% in FY 2025.

And lastly, the WPCRF executed a total of two loan agreements for $93.3 million during FY 2025. DWTRLF executed a total of 11 loan agreements for $45.9 million during FY 2025.

Department of Health
State of Hawaii
Statement of Net Position
June 30, 2025

	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows of Resources			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	$ 519,117,750	$ 187,673,570	$ 706,791,320
Receivables			
Due from State Treasury	-	5,817,331	5,817,331
Due from other State agency	922,563	-	922,563
Accrued interest and loan fees	2,456,320	2,632,822	5,089,142
Accounts receivable, net of allowance for doubtful accounts of $2,024,723	10,461,385	-	10,461,385
Due from Federal government	12,657,994	552,367	13,210,361
Opioid settlement receivable	33,303,492	-	33,303,492
Tobacco settlement receivable	13,539,490	-	13,539,490
Current maturities of loans receivable	-	69,440,900	69,440,900
Total current assets	592,458,994	266,116,990	858,575,984
Loans receivable, net of current maturities	-	693,230,474	693,230,474
Capital assets, net of accumulated amortization and depreciation	250,470,582	167,747	250,638,329
Total assets	842,929,576	959,515,211	1,802,444,787
Deferred outflows of resources	-	2,665,566	2,665,566
Total assets and deferred outflows of resources	$ 842,929,576	$ 962,180,777	$ 1,805,110,353
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities			
Current liabilities			
Vouchers payable	$ 70,624,939	$ 613,499	$ 71,238,438
Accrued wages and employee benefits payable	23,965,220	435,545	24,400,765
Unearned revenue	14,224,351	-	14,224,351
Accrued compensated absences, current portion	19,082,563	425,644	19,508,207
Workers' compensa. on liability	9,143,852	-	9,143,852
Due to other State agencies	14,938,012	-	14,938,012
Beverage container deposits	2,486,051	-	2,486,051
Lease liability, current portion	598,732	-	598,732
Subscription liability, current portion	2,916,718	-	2,916,718
Accrued interest liability	98,327	-	98,327
Total current liabilities	158,078,765	1,474,688	159,553,453
Accrued compensated absences, net of current portion	57,584,811	1,809,778	59,394,589
Lease liability, net of current portion	3,835,304	-	3,835,304
Subscription liability, net of current portion	6,224,025	-	6,224,025
Net pension liability	-	7,216,924	7,216,924
Net other postemployment benefits liability	-	4,593,316	4,593,316
Total liabilities	225,722,905	15,094,706	240,817,611
Deferred inflows of resources	-	1,518,307	1,518,307
Net position			
Net investment in capital assets	236,895,803	167,747	237,063,550
Restricted for			
Loan programs	-	945,400,017	945,400,017
Trust fund programs	18,082,033	-	18,082,033
Medicaid programs	66,832,737	-	66,832,737
Federal grant programs	2,317,559	-	2,317,559
Unrestricted	293,078,539	-	293,078,539
Total net position	617,206,671	945,567,764	1,562,774,435
Total liabilities, deferred inflows of resources, and net position	$ 842,929,576	$ 962,180,777	$ 1,805,110,353

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

Department of Health
State of Hawaii
Statement of Activities
Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net Revenue (Expenses) and Changes in Net Position: Governmental Activities	Net Revenue (Expenses) and Changes in Net Position: Business-Type Activities	Net Revenue (Expenses) and Changes in Net Position: Total
Governmental activities						
General administration	$ 120,830,103	$ 3,686,800	$ 24,030,605	$ (93,112,698)	$ -	$ (93,112,698)
Environmental health administration	89,401,446	4,853,874	16,008,484	(68,539,088)	-	(68,539,088)
Behavioral health services administration	513,064,850	24,557,844	48,251,742	(440,255,264)	-	(440,255,264)
Health resources administration	352,988,590	24,849,277	120,874,947	(207,264,366)	-	(207,264,366)
Total governmental activities	1,076,284,989	57,947,795	209,165,778	(809,171,416)	-	(809,171,416)
Business-type activities						
Environmental health loan programs	27,215,529	9,194,907	60,589,779	-	42,569,157	42,569,157
Total Department	$ 1,103,500,518	$ 67,142,702	$ 269,755,557	(809,171,416)	42,569,157	(766,602,259)
General revenues						
State general fund allotments, net				692,449,492	-	692,449,492
Nonimposed employee fringe benefits				113,447,382	-	113,447,382
Hawaii tobacco settlement special fund				33,059,139	-	33,059,139
Tobacco tax				14,116,848	-	14,116,848
Deposit beverage container fee				33,807,866	-	33,807,866
Environmental response tax				1,297,028	-	1,297,028
Advance glass disposal fee				773,816	-	773,816
Total general revenues				888,951,571	-	888,951,571
Change in net position				79,780,155	42,569,157	122,349,312
Net position						
Net position at beginning of year, as previously reported				576,147,944	904,612,360	1,480,760,304
Adjustment for change in accounting principle				(38,721,428)	(1,613,753)	(40,335,181)
Net position at beginning of year, as restated				537,426,516	902,998,607	1,440,425,123
Net position at end of year				$ 617,206,671	$ 945,567,764	$ 1,562,774,435

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

Department of Health
State of Hawaii
Governmental Funds
Balance Sheet
June 30, 2025

	General	Deposit Beverage Container Deposit Fund	Opioid Settlement Funds	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in cash and cash equivalents and investments in State Treasury	$ 173,056,159	$ 87,878,571	$ 32,765,831	$ 225,417,189	$ 519,117,750
Due from other State agency	-	-	-	922,563	922,563
Accrued interest receivable	-	747,923	169,473	1,538,924	2,456,320
Accounts receivable, net of allowance for doubtful accounts of $2,024,723	-	10,461,385	-	-	10,461,385
Opioid settlement receivable	-	-	33,303,492	-	33,303,492
Due from Federal government	-	-	-	12,657,994	12,657,994
Total assets	$ 173,056,159	$ 99,087,879	$ 66,238,796	$ 240,536,670	$ 578,919,504
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Vouchers and contracts payable	$ 43,039,476	$ 3,506,419	$ 1,103,138	$ 22,975,906	$ 70,624,939
Accrued wages and employee benefits payable	19,144,952	55,973	26,274	4,738,021	23,965,220
Unearned revenue	-	-	-	14,224,351	14,224,351
Due to other State agencies	1,398,522	-	-	-	1,398,522
Beverage container deposits	-	2,486,051	-	-	2,486,051
Total liabilities	63,582,950	6,048,443	1,129,412	41,938,278	112,699,083
Deferred inflows of resources					
Unavailable revenues	-	-	33,303,492	204,330	33,507,822
Fund balances					
Restricted					
Medicaid programs	-	-	-	66,832,737	66,832,737
Trust fund programs	-	-	-	18,082,033	18,082,033
Federal grant programs	-	-	-	2,317,559	2,317,559
Committed					
Behavioral health services	-	-	31,805,892	19,709,724	51,515,616
Environmental health	-	-	-	26,204,455	26,204,455
General administration	-	-	-	7,065,586	7,065,586
Health resources	-	-	-	55,103,625	55,103,625
Tobacco settlement program	-	-	-	3,078,343	3,078,343
Deposit beverage container program	-	93,039,436	-	-	93,039,436
Assigned					
Behavioral health services	40,889,225	-	-	-	40,889,225
Environmental health	3,070,726	-	-	-	3,070,726
General administration	27,123,624	-	-	-	27,123,624
Health resources	38,389,634	-	-	-	38,389,634
Total fund balances	109,473,209	93,039,436	31,805,892	198,394,062	432,712,599
Total liabilities, deferred inflows of resources, and fund balances	$ 173,056,159	$ 99,087,879	$ 66,238,796	$ 240,536,670	$ 578,919,504

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

Department of Health
State of Hawaii
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2025

Total fund balances – governmental funds	$ 432,712,599
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.	250,470,582
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.	(76,667,374)
Lease liability, subscription liability, and accrued interest liability 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.	(13,673,106)
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.	(9,143,852)
Tobacco settlement receivables not collected within 60 days and not available for current financial resources are therefore not reported as a receivable in the governmental funds.	13,539,490
Due to other state agencies related to tobacco settlement receivables 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.	(13,539,490)
Revenues and other financing sources not collected within 60 days and not available for current financial resources are therefore reported as deferred inflows of resources – unavailable revenues in the governmental funds.	33,507,822
Net position of governmental activities	$ 617,206,671

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

Department of Health
State of Hawaii
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2025

	General	Deposit Beverage Container Deposit Fund	Opioid Settlement Funds	Other Governmental Funds	Total Governmental Funds
Revenues					
State-allotted appropriations	$ 680,930,363	$ -	$ -	$ 11,519,129	$ 692,449,492
Intergovernmental revenues	-	-	-	195,434,234	195,434,234
Non-imposed employee fringe benefits	113,302,329	7,912	-	137,141	113,447,382
Taxes, fees, fines and other	-	-	-	80,996,981	80,996,981
Investment income	-	2,908,746	539,835	6,300,341	9,748,922
Hawaii tobacco settlement	-	-	-	33,059,139	33,059,139
Settlement of opioid claims	-	-	9,300,135	-	9,300,135
Deposit beverage container deposit	-	33,807,866	-	-	33,807,866
Total revenues	794,232,692	36,724,524	9,839,970	327,446,965	1,168,244,151
Expenditures					
General administration	93,621,463	-	-	24,165,532	117,786,995
Environmental health	42,920,926	21,545,258	-	23,890,042	88,356,226
Behavioral health services	450,394,365	-	4,198,101	54,803,648	509,396,114
Heath resources	147,533,977	-	-	209,196,230	356,730,207
Total expenditures	734,470,731	21,545,258	4,198,101	312,055,452	1,072,269,542
Excess of revenues over expenditures	59,761,961	15,179,266	5,641,869	15,391,513	95,974,609
Other financing sources					
Capitalized leases	566,887	-	-	-	566,887
Capitalized subscription	4,886,781	-	-	-	4,886,781
Total other financing sources	5,453,668	-	-	-	5,453,668
Net change in fund balances	65,215,629	15,179,266	5,641,869	15,391,513	101,428,277
Fund balances at beginning of year	44,257,580	77,860,170	26,164,023	183,002,549	331,284,322
Fund balances at end of year	$ 109,473,209	$ 93,039,436	$ 31,805,892	$ 198,394,062	$ 432,712,599

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

Department of Health
State of Hawaii
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2025

Net change in fund balances – total governmental funds		$ 101,428,277
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 depreciated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	9,372,937	
Less: Current year depreciation expense and other adjustments	(17,082,466)	(7,709,529)
Transfers in related to capital assets are not financial resources and, therefore, are not reported in the governmental funds.		796,388
Initial recognition of lease liability and subscription liability provides current financial resources to governmental funds while the repayment of the principal consumes the current financial resources of governmental funds. Neither transaction has any effect on the net position. This is the amount by which the initial recognition of lease liability and subscription liability exceeds principal payments in the current period.		
Initial recognition of lease liability and subscription	(5,453,668)	
Lease and subscription expenditures	2,894,467	(2,559,201)
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.		(4,847,887)
Decrease 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.		925,801
Revenues and other financing sources reported on the statement of activities that do not provide or use current financial resources and are not reported as revenues in the governmental funds. Once the current financial resource is available, revenues and other financing sources are recognized in the governmental funds and eliminated for the statement of activities.		(8,253,694)
Change in net position of governmental activities		$ 79,780,155

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

Department of Health
State of Hawaii
Proprietary Funds
Statement of Net Position
June 30, 2025

	Business-Type Activities – Enterprise Funds		
	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	$ 118,601,001	$ 69,072,569	$ 187,673,570
Loan fees receivable	1,360,956	664,428	2,025,384
Accrued interest receivable	422,497	184,941	607,438
Due from Federal Government	-	552,367	552,367
Due from State Treasury	3,829,908	1,987,423	5,817,331
Current portion of loans receivable	52,459,256	16,981,644	69,440,900
Total current assets	176,673,618	89,443,372	266,116,990
Loans receivable, net of current portion	487,497,514	205,732,960	693,230,474
Capital assets, net of accumulated depreciation	5,668	162,079	167,747
Total assets	664,176,800	295,338,411	959,515,211
Deferred outflows of resources	1,543,190	1,122,376	2,665,566
Total assets and deferred outflows of resources	$ 665,719,990	$ 296,460,787	$ 962,180,777
Liabilities, Deferred Inflows of Resources, and Net Position			
Current liabilities			
Accounts payable and other accrued liabilities	$ 469,963	$ 1,004,725	$ 1,474,688
Accrued compensated absences, net of current portion	1,066,497	743,281	1,809,778
Net pension liability	4,325,899	2,891,025	7,216,924
Net other postemployment benefits liability	2,548,136	2,045,180	4,593,316
Total liabilities	8,410,495	6,684,211	15,094,706
Deferred inflows of resources	727,795	790,512	1,518,307
Net position			
Net investment in capital assets	5,668	162,079	167,747
Restricted – expendable	656,576,032	288,823,985	945,400,017
Total net position	656,581,700	288,986,064	945,567,764
Total liabilities, deferred inflows of resources, and net position	$ 665,719,990	$ 296,460,787	$ 962,180,777

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

Department of Health
State of Hawaii
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2025

	Business-Type Activities – Enterprise Funds		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Operating revenues			
Interest income from loans	$ 1,360,467	$ 759,048	$ 2,119,515
Administrative loan fees	4,353,043	2,722,349	7,075,392
Total revenues	5,713,510	3,481,397	9,194,907
Expenses			
Administrative	2,706,598	2,155,803	4,862,401
State program management	-	2,443,374	2,443,374
Water protection	-	591,860	591,860
Small systems technical assistance	-	144,129	144,129
Principal forgiveness	7,867,130	11,306,635	19,173,765
Total expenses	10,573,728	16,641,801	27,215,529
Operating loss	(4,860,218)	(13,160,404)	(18,020,622)
Nonoperating revenues			
Federal contributions	21,953,000	19,808,622	41,761,622
State contributions	5,515,000	6,208,000	11,723,000
Other interest income	4,712,705	2,337,941	7,050,646
Other income	26,703	27,808	54,511
Total nonoperating revenues	32,207,408	28,382,371	60,589,779
Change in net position	27,347,190	15,221,967	42,569,157
Net position			
Beginning of year, as previously reported	630,210,684	274,401,676	904,612,360
Adjustment for change in accounting principle	(976,174)	(637,579)	(1,613,753)
Beginning of year, as restated	629,234,510	273,764,097	902,998,607
End of year	$ 656,581,700	$ 288,986,064	$ 945,567,764

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

Department of Health
State of Hawaii
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2025

	Business-Type Activities – Enterprise Funds		
	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
Cash flows from operating activities			
Payments to employees	$ (3,141,550)	$ (3,058,684)	$ (6,200,234)
Payments to vendors	(163,548)	(2,691,534)	(2,855,082)
Net cash used in operating activities	(3,305,098)	(5,750,218)	(9,055,316)
Cash flows from noncapital financing activities			
State contributions	5,515,000	6,208,000	11,723,000
Federal contributions	21,953,000	19,845,467	41,798,467
Net cash provided by noncapital financing activities	27,468,000	26,053,467	53,521,467
Cash flows from capital and related financing activities			
Purchase of equipment	-	(101,132)	(101,132)
Net cash used in capital and related financing activities	-	(101,132)	(101,132)
Cash flows from investing activities			
Principal repayments on loans	50,022,865	18,557,316	68,580,181
Disbursement of loan proceeds	(58,105,814)	(19,363,766)	(77,469,580)
Interest income from loans	1,369,162	759,831	2,128,993
Administrative loan fees	4,298,732	2,744,690	7,043,422
Other interest income	2,958,980	1,485,201	4,444,181
Net cash provided by investing activities	543,925	4,183,272	4,727,197
Net increase in cash	24,706,827	24,385,389	49,092,216
Equity in cash and cash equivalents and investments in State Treasury			
Beginning of year	93,894,174	44,687,180	138,581,354
End of year	$ 118,601,001	$ 69,072,569	$ 187,673,570
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	$ (4,860,218)	$ (13,160,404)	$ (18,020,622)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation expense	9,267	43,746	53,013
Principal forgiveness	7,867,130	11,306,635	19,173,765
Interest income from loans	(1,360,467)	(759,048)	(2,119,515)
Administrative loan fees	(4,353,043)	(2,722,349)	(7,075,392)
Non-imposed fringe benefits	26,703	27,808	54,511
Change in assets, deferred outflows, liabilities, and deferred inflows			
Due from State Treasury	639	11,137	11,776
Accounts payable and other accrued liabilities	(248,955)	(33,414)	(282,369)
Net deferred outflows/inflows of resources	1,071	(293,456)	(292,385)
Net pension liability	135,222	170,413	305,635
Net other postemployment benefits liability	(522,447)	(341,286)	(863,733)
Net cash used in operating activities	$ (3,305,098)	$ (5,750,218)	$ (9,055,316)

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

Department of Health
State of Hawaii
Private-Purpose Trust Fund
Statement of Fiduciary Net Position
June 30, 2025

	Opioid Settlement Fund
Assets	
Equity in cash and cash equivalents and investments in State Treasury	$ 646,528
Opioid settlement receivable	5,883,009
Total assets	$ 6,529,537
Liabilities and Net Position	
Liabilities	
Benefits payable to other governments	$ 593,120
Net position	
Held in trust for other governments	5,936,417
Total liabilities and net position	$ 6,529,537

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

Department of Health
State of Hawaii
Private-Purpose Trust Fund
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2025

	Opioid Settlement Fund
Deductions	
Intergovernmental payments	$ 4,506,997
Net changes in net position	(4,506,997)
Net position	
Beginning of year	10,443,414
End of year	$ 5,936,417

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

1. 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 GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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, 2025, and the changes in its financial position and cash flows, 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 Annual Comprehensive Financial Report ("ACFR"), which includes the Department's financial activities.

Act 262, Session Laws of Hawaii ("SLH") 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 ACFR but are not included in the Department's basic financial statements.

On July 7, 2021, Act 212, SLH 2021, was passed to commence the transfer of Oahu Regional Health Care System in its entirety from HHSC to the Department. Act 212 required the transfer to be completed no later than December 31, 2022. On June 27, 2022, Act 150, SLH 2022 was passed, which extended the transfer date to December 31, 2025. On May 16, 2025, Act 062, SLH 2025 was passed, which repealed the requirement to transfer the Oahu Regional Health Care System from HHSC to the Department. There was no impact to the net position of the Department at June 30, 2025.

2. Summary of Significant Accounting Policies

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.

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.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to 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 is reported as an operating expense.

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

Governmental Fund Types – The Department reports the following major governmental funds:

- **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 Governmental Funds in the fund financial statements.

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

- **Restricted** – 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.

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
Private-Purpose Trust Funds – Private-purpose trust funds are used to account for assets administered by the Department through a trust agreement or equivalent arrangement.

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 ACFR which may be obtained from the Department of Accounting and General Services' ("DAGS") website: http://ags.hawaii.gov/accounting/annual-financial-reports/.

Due from Other State Agency

Receivables due from other State agency 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 $923,000 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.

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% of the funds to other State agencies and other entities in accordance with Act 118, SLH 2015. The Department receives annual payments on April 15 of each year for tobacco settlements earned for the preceding calendar year.

The Department recognized approximately $33.1 million in tobacco settlement revenues during the year ended June 30, 2025. 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 $13.5 million in the statement of net position representing tobacco settlements earned for the period January 1, 2025 through June 30, 2025.

Opioid Settlement

The State and its political subdivisions (the "Counties") are currently participating in national opioid settlements against pharmaceutical distributors and manufacturers related to their role in the opioid epidemic. As part of the opioid settlement agreement, a portion of the funds received must be used to support any of a wide variety of strategies to fight the opioid crisis. The State also entered into a Memorandum of Agreement ("MOA") with the Counties which allocates the settlement funds between the State and the Counties, establishes an advisory council to provide guidance on how the State's portion should be utilized and instructs how the Counties' funds are to be utilized. As there are cases ongoing, future opioid litigation may result in additional agreements or judgments, or suspension and reduction of payments, and each agreement or judgment may have unique terms governing payment timing and duration.

On October 21, 2022, the State entered into three settlement agreements in which the State and counties will receive approximately $81.8 million, with approximately $69.5 million allocated to the State, to be paid over 18 years. In the year of settlement, the Department recorded settlement opioid claim revenue of $69.5 million. For the year ended June 30, 2025, the Department received approximately $9.3 million and has an opioid settlement receivable of $33.3 million in the statement of net position.

The Department acts in a trustee or agent capacity for funds held for the Counties. The funds held for the Counties are recorded in the Opioid Settlement Fund, a fiduciary fund, and is reported outside the government-wide financial statements. As of June 30, 2025, the Opioid Settlement Fund has recorded an opioid settlement receivable of approximately $5.9 million and benefits payable to other governments of approximately $593,000 in the statement of fiduciary net position.

Loans Receivable

Loans made to the 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.

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.

Capital Assets

Capital assets, which include land and improvements, buildings and improvements, furniture and equipment, and motor vehicles, 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

Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. 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 are as follows:

	Governmental Activities	Business-Type Activities
Land	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

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 are 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, 2025 consisted primarily of Federal grant funds for which all requirements had not yet been met.

Due to Other State Agencies

Payables to other State agencies primarily consists of funds allocated to other State agencies in accordance with the HTSSF.

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.

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, 2025:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to pensions	$ 1,704,191	$ (411,339)
Related to other postemployment benefits	961,375	(1,106,968)
	$ 2,665,566	$ (1,518,307)

Compensated Absences

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

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.

Use of Estimates

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

Leases

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

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

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

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

- The Department uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Department generally uses the State's estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancelable period of the lease.

- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the State is reasonably certain to exercise.

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

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

Subscription Based Information Technology Arrangements ("SBITA")
The Department has a policy to recognize a subscription liability and a right-to-use subscription asset ("subscription asset") in the government-wide financial statements and its proprietary fund financial statements. The Department recognizes subscription liabilities with an initial, individual value of $500,000 or more and a subscription term greater than one year. Variable payments based on future performance of the Department, usage of the underlying information technology ("IT") asset, or number of user seats are not included in the measurement of the subscription liability; rather, these variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

At the commencement of a SBITA, the Department initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, plus any payments made to the SBITA vendor before the commencement of the subscription term and any capitalizable initial implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

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

- **Preliminary Project Stage** – Outlays are expensed as incurred.
- **Initial Implementation Stage** – Outlays are capitalized as an addition to the subscription asset.
- **Operation and Additional Implementation Stage** – Outlays are expensed as incurred unless they meet specific capitalization criteria.

Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position. Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the Department has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

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

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

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.

Nonmonetary Transactions
The Department receives noncash awards for one of its federally funded programs. The Department expended approximately $21.9 million in vaccines during the year ended June 30, 2025 and recorded intergovernmental revenues for other governmental funds of the same amount in the accompanying basic financial statements.

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.

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 Employees' Retirement System of the State of Hawaii ("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.

Other Postemployment 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.

Recently Issued Accounting Pronouncements

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

Upon implementation of this Statement, the beginning net position balances as of July 1, 2024 were restated to reflect the cumulative effect of the Statement. The impact of these changes as of July 1, 2024 is summarized in the table below:

	Beginning Net Position (As Previously Reported)	Adjustment for GASB 101 Implementation	Beginning Net Position (As Restated)
Governmental Activities	$ 576,147,944	$ (38,721,428)	$ 537,426,516
Business-Type Activities			
Water Pollution Control Revolving Fund	$ 630,210,684	$ (976,174)	$ 629,234,510
Drinking Water Treatment Revolving Fund	274,401,676	(637,579)	273,764,097
Total Business-Type Activities	$ 904,612,360	$ (1,613,753)	$ 902,998,607

GASB Statement No. 102
During fiscal year 2025, the Department implemented GASB Statement No. 102, *Certain Risk Disclosures*. The primary objective of the Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that are essential to their analyses for making decisions or assessing accountability. The requirements of this statement did not have material effect on the Department's financial statements.

GASB Statement No. 103

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Department has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 104

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Department has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 105

In December 2025, the GASB issued Statement No. 105, *Subsequent Events*. The primary objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2026. The Department has not determined the effect this statement will have on its financial statements.

3. Loans Receivable

At June 30, 2025, 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 2.13%, 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, 2025, approximately $19.2 million in loans were forgiven. All loans and advances forgiven were in accordance with required conditions. Accrued interest receivable on the loans amounted to approximately $607,000 at June 30, 2025.

The following is a schedule of principal payments due on loans for projects completed or in progress as of June 30, 2025:

Year Ending June 30,	
2026	$ 69,440,900
2027	66,930,028
2028	58,745,383
2029	56,213,373
2030	55,208,257
2031–2035	240,079,448
2036–2040	177,812,020
2041–2045	37,631,288
2046–2050	472,072
2051–2055	138,605
	$ 762,671,374

As of June 30, 2025, the Department's proprietary funds were committed under existing loan agreements to the following counties:

	Water Pollution Control Revolving Fund	Drinking Water Treatment Revolving Loan Fund	Total
City and County of Honolulu	$ 26,063,609	$ 41,299,086	$ 67,362,695
County of Hawaii	9,350,000	-	9,350,000
County of Kauai	21,917,168	-	21,917,168
County of Maui	-	3,750,000	3,750,000
Private Water Systems	-	2,933,173	2,933,173
	$ 57,330,777	$ 47,982,259	$ 105,313,036

4. Capital Assets

Capital assets activity for governmental and business-type activities for the year ended June 30, 2025 was as follows:

	Balance July 1, 2024	Additions	Disposals	Balance June 30, 2025
Governmental activities				
Depreciable assets				
Land improvements	$ 6,826,189	$ -	$ -	$ 6,826,189
Building and improvements	409,166,260	1,186,494	-	410,352,754
Furniture and equipment	34,417,683	3,529,168	(5,035,518)	32,911,333
Total depreciable assets	450,410,132	4,715,662	(5,035,518)	450,090,276
Less: Accumulated depreciation for				
Land improvements	(3,428,899)	(330,885)	-	(3,759,784)
Building and improvements	(173,396,065)	(10,482,419)	-	(183,878,484)
Furniture and equipment	(27,901,139)	(2,276,634)	4,327,267	(25,850,506)
Total accumulated depreciation	(204,726,103)	(13,089,938)	4,327,267	(213,488,774)
Nondepreciable assets				
Land	1,018,080	-	-	1,018,080
Amortizable right-to-use assets				
Building	5,685,686	-	-	5,685,686
Equipment	407,275	566,887	-	974,162
Subscription	7,633,739	4,886,781	-	12,520,520
Total amortizable right-to-use assets	13,726,700	5,453,668	-	19,180,368
Less: Accumulated amortization for				
Building	(1,460,587)	(709,235)	-	(2,169,822)
Equipment	(181,707)	(140,346)	-	(322,053)
Subscription	(1,402,797)	(2,434,696)	-	(3,837,493)
Total accumulated amortization	(3,045,091)	(3,284,277)	-	(6,329,368)
Governmental activities capital assets, net	257,383,718	(6,204,885)	(708,251)	250,470,582
Business-type activities				
Depreciable assets				
Furniture and equipment	3,609,982	101,132	-	3,711,114
Less: Accumulated depreciation for				
Furniture and equipment	(3,490,354)	(53,013)	-	(3,543,367)
Business activities capital assets, net	119,628	48,119	-	167,747
Total Department capital assets, net	$ 257,503,346	$ (6,156,766)	$ (708,251)	$ 250,638,329

Current period depreciation and amortization expense for the year ended June 30, 2025 was charged to functions of the Department as follows:

	Governmental Activities	Business-Type Activities	Total
General administration	$ 3,312,070	$ -	$ 3,312,070
Environmental health	1,410,616	53,013	1,463,629
Behavioral health	7,583,659	-	7,583,659
Health resources	4,067,870	-	4,067,870
	$ 16,374,215	$ 53,013	$ 16,427,228

5. Changes in Long-Term Liabilities

Changes in long-term liabilities during 2025 were as follows:

	Governmental Activities				
	Balance at July 1, 2024 (As Restated)	Additions	Deductions	Balance at June 30, 2025	Due Within One Year
Compensated absences*	$ 71,819,487	$ 4,847,887	$ -	$ 76,667,374	$ 19,082,563
Leases payable	4,619,566	566,887	(752,417)	4,434,036	598,732
Subscriptions payable	6,396,011	4,886,781	(2,142,049)	9,140,743	2,916,718
Total	$ 82,835,064	$ 10,301,555	$ (2,894,466)	$ 90,242,153	$ 22,598,013

	Business-type Activities				
	Balance at July 1, 2024 (As Restated)	Additions	Deductions	Balance at June 30, 2025	Due Within One Year
Compensated absences*	$ 2,248,622	$ -	$ (13,200)	$ 2,235,422	$ 425,644
Net pension liability	6,911,289	977,288	(671,653)	7,216,924	-
Net other postemployment benefits liability	5,457,049	-	(863,733)	4,593,316	-
Total	$ 14,616,960	$ 977,288	$ (1,548,586)	$ 14,045,662	$ 425,644

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

6. Beverage Container Deposits

The changes to the beverage container deposit liability during the year ended June 30, 2025 were as follows:

Balance as of July 1, 2024	$ 3,434,351
Deposits received from distributors	49,250,219
Payments made to recycling centers, net of refunds	(25,819,217)
Unredeemed deposits recognized as revenue	(24,379,302)
Balance as of June 30, 2025	$ 2,486,051

7. 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 $113.4 million for the year ended June 30, 2025, 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.

8. Employee Benefit Plans

Pension Plan

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 the ERS website: https://ers.ehawaii.gov/resources/financials.

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

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

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. 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 are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

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

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

Contributory Class for Members Hired Prior to July 1, 2012

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

  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 firefighters 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 are required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

- *Death Benefits* – For service-connected deaths, the 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 children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Contributory Class for Members Hired After June 30, 2012

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

  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 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service are required for ordinary disability.

  For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service 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 Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 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 are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

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

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

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 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.

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

Contributions

Contributions are 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 2025 were 41% for police officers and firefighters and 24% for all other employees. Contributions to the pension plan from the Department were approximately $867,000 for the year ended June 30, 2025.

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.

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

At June 30, 2025, the Department reported a liability of approximately $7,217,000 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2024, 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. The Department's proportion of the net pension liability was based on an allocation

of the State's net pension liability based on the proportionate share of qualified payroll. At June 30, 2024, the Department's proportion of the State's share was 0.09%, which was the same as its proportion measured as of June 30, 2023.

There were no changes in actuarial assumptions as of June 30, 2023 to June 30, 2024. There were no changes between the measurement date, June 30, 2024, and the reporting date, June 30, 2025, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2025, the Department recognized pension expense of approximately $727,000. At June 30, 2025, 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	$ 224,313	$ (68,472)
Changes in assumptions	82,925	(51,898)
Net difference between projected and actual earnings on pension plan investments*	156,787	-
Changes in proportion and difference between Department contributions and proportionate share of contributions	87,339	(5,188)
Department contributions subsequent to the measurement date	867,046	-
	$ 1,418,410	$ (125,558)

* The net difference between projected and actual earnings on pension plan investments is comprised of a deferred outflow of resources of $442,568 for the Water Pollution Control Revolving Fund and a deferred inflow of resources of $285,781 for the Drinking Water Treatment Revolving Fund.

At June 30, 2025, approximately $867,000 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 year ending June 30, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30,	
2026	$ 32,158
2027	(5,351)
2028	227,801
2029	124,670
2030	46,528
	$ 425,806

Actuarial Assumptions

The total pension liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees, on August 8, 2022, based on the 2021 Experience Study for the five-year period from July 1, 2016 through June 30, 2021:

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.

Post-retirement mortality rates are based on the 2022 Public Retirees of Hawaii mortality table with full generational projections in future years. Pre-retirement mortality rates are based on multiples of Pub-2010 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 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's 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. The rate of returns based on ERS's investment consultant as of June 30, 2024 are summarized in the following table:

Strategic Allocation (Risk-Based Classes)	**Strategic Class Weights**	**Long-Term Expected Geometric Rate of Return**
Broad growth		
Public equity	20.00 %	7.20 %
Private equity	19.00 %	9.90 %
Real estate	9.00 %	6.30 %
Private credit	8.00 %	9.20 %
Infrastructure	7.00 %	7.30 %
Liquid credit	4.00 %	6.50 %
Timber/agriculture/infrastructure	3.00 %	5.30 %
Total broad growth	70.00 %	
Diversifying strategies		
Intermediate government	14.00 %	4.00 %
Systematic trend following	8.00 %	3.80 %
Long U.S. treasuries	4.00 %	4.30 %
Reinsurance	4.00 %	5.30 %
Total diversifying strategies	30.00 %	
Total investments	100.00 %	

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 one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	$ 9,639,567	$ 7,216,924	$ 5,210,249

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 https://ers.ehawaii.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.

Payables to the Pension Plan

At June 30, 2025, there was no payable to the ERS.

Required Supplementary Information and Disclosures

The State's ACFR includes the required disclosures and supplementary information on the State's pension plan.

Deferred Compensation Plan

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

Postemployment Healthcare and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at https://eutf.hawaii.gov/reports. The report may also be obtained by writing to the EUTF at 201 Merchant Street, Suite 1700, Honolulu, Hawaii 96813.

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

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

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

Employees Covered by Benefit Terms

At July 1, 2024, the State had the following number of plan members covered:

Inactive plan members or beneficiaries currently receiving benefits	40,158
Inactive plan members entitled to but not yet receiving benefits	7,381
Active plan members	49,427
Total plan members	96,966

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department were approximately $809,000 for the year ended June 30, 2025. The employer is required to make all contributions for members.

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

At June 30, 2025, the Department reported a liability of approximately $4,593,000 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. 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, 2024, the Department's proportion of the State's share was 0.08%, which increased by 0.05% from its proportion measured as of June 30, 2023.

There were no changes in assumptions between the measurement date, July 1, 2024, and the reporting date, June 30, 2025, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

For the year ended June 30, 2025, the Department recognized OPEB expense of $99,000. At June 30, 2025, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (1,022,372)
Changes in assumptions	23,661	(84,596)
Net difference between projected and actual earnings on investments	128,223	-
Department contributions subsequent to the measurement date	809,491	-
	$ 961,375	$ (1,106,968)

At June 30, 2025, approximately $809,000 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 year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30,	
2026	$ (307,639)
2027	(234,558)
2028	(197,846)
2029	(111,451)
2030	(103,590)
	$ (955,084)

The total OPEB liability in the July 1, 2024 actuarial valuation was determined using the following actuarial methods and assumptions adopted by the EUTF's Board of Trustees on January 9, 2023, based on the experience study covering the five-year period ended June 30, 2022 as conducted for the ERS:

Inflation	2.50%
Salary increases	3.75% to 6.75% including inflation
Investment rate of return	7.00 %
Healthcare Trend Rates	
PPO *	Initial rate of 6.20%; declining to a rate of 4.25% after 20 years
HMO **	Initial rate of 6.20%; declining to a rate of 4.25% after 20 years
Contribution	Initial rate of 5.00%; declining to a rate of 4.25% after 20 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drugs.

** Includes prescription drug assumptions.

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 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 asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Global equity	30.00 %	6.00 %
Private equity	15.00 %	10.10 %
Real assets	12.00 %	5.00 %
Private credit	10.00 %	7.80 %
Trend following	10.00 %	2.40 %
Reinsurance	5.50 %	5.10 %
Long treasuries	5.00 %	2.60 %
Alternative risk premia	5.00 %	3.80 %
U.S. microcap	3.00 %	8.30 %
TIPS	2.50 %	2.10 %
Tail risk / long volatility	2.00 %	(1.30)%
	100.00 %	

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. 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 those 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 EUTF's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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 on a trade-date basis. 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 https://eutf.hawaii.gov/reports/.

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, 2024.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2024	$ 7,604,762	$ 2,147,713	$ 5,457,049
Service cost	180,781	-	180,781
Interest on the total OPEB liability	614,664	-	614,664
Difference between expected and actual experience	(688,030)	-	(688,030)
Employer contributions	-	638,539	(638,539)
Net investment income	-	332,977	(332,977)
Benefit payments	(315,702)	(315,702)	-
Administrative expense	-	(322)	322
Other	-	(46)	46
Net changes	(208,287)	655,446	(863,733)
Balance at June 30, 2025	$ 7,396,475	$ 2,803,159	$ 4,593,316

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

The following table 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%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	$ 5,922,092	$ 4,593,316	$ 3,524,745

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

The following table 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	$ 3,469,176	$ 4,593,316	$ 6,024,930

Payables to the OPEB Plan

At June 30, 2025, there was no contributions payable to EUTF.

Required Supplementary Information and Disclosures

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

9. Commitments and Contingencies

Leases

The Department has entered into leases for building space and equipment use. The remaining terms of the agreements range from one to 13 years through fiscal year 2038. The calculated interest rates range from 2.87% to 5.35%. Principal and interest payment to maturity are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2026	$ 598,732	$ 189,973	$ 788,705
2027	565,609	163,226	728,835
2028	594,222	135,723	729,945
2029	577,036	107,183	684,219
2030	538,663	81,287	619,950
2031–2035	1,167,801	191,408	1,359,209
2036–2038	391,973	23,752	415,725
	$ 4,434,036	$ 892,552	$ 5,326,588

SBITA

The Department has entered into a subscription agreement. The remaining term of the agreements range from two to five years through fiscal year 2030. The calculated interest rates range from 5.11% to 5.25%. Principal and interest payments to maturity are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2026	$ 2,916,718	$ 404,010	$ 3,320,728
2027	3,121,682	240,027	3,361,709
2028	1,462,589	107,233	1,569,822
2029	1,073,524	50,403	1,123,927
2030	566,230	3,766	569,996
	$ 9,140,743	$ 805,439	$ 9,946,182

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, 2025, 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.

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.

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

Department of Health
State of Hawaii
General Fund
Schedule of Revenues and Expenditures – Budget and Actual (Unaudited)
Year Ended June 30, 2025

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
Revenues				
State allotments	$ 710,138,605	$ 687,937,730	$ 681,225,083	$ (6,712,647)
Total revenues	710,138,605	687,937,730	681,225,083	(6,712,647)
Expenditures				
General administration	95,415,604	95,415,604	81,770,364	13,645,240
Environmental health	41,381,245	29,840,370	33,034,537	(3,194,167)
Behavioral health services	418,559,567	418,559,567	421,225,142	(2,665,575)
Health resources	154,782,189	144,122,189	145,195,040	(1,072,851)
Total expenditures	710,138,605	687,937,730	681,225,083	6,712,647
Excess of revenues over expenditures	$ -	$ -	$ -	$ -

See accompanying report of independent auditors and note to required supplementary information.

Department of Health
State of Hawaii
Deposit Beverage Container Deposit Fund
Schedule of Revenues and Expenditures – Budget and Actual (Unaudited)
Year Ended June 30, 2025

	Original	Final	Actual on Budgetary Basis	Variance Positive (Negative)
Revenues				
Deposit beverage container deposit	$ 71,268,522	$ 71,268,522	$ 60,396,692	$ (10,871,830)
Total revenues	71,268,522	71,268,522	60,396,692	(10,871,830)
Expenditures				
Environmental health				
Deposit beverage container deposit	71,268,522	71,268,522	54,372,540	16,895,982
Total expenditures	71,268,522	71,268,522	54,372,540	16,895,982
Excess of revenues over expenditures	$ -	$ -	$ 6,024,152	$ 6,024,152

See accompanying report of independent auditors and note to required supplementary information.

Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the schedule of revenues and expenditures – budget and actual (budgetary basis) are those estimated as compiled by the Council on Revenues and the Director of Finance.

Budgeted expenditures are derived primarily from the General Appropriations Act of 2023 (Act 164, HB No. 300), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various Session Laws of Hawaii.

All expenditures of appropriated funds were made pursuant to the appropriations in the fiscal 2023 – 2025 biennial budget and executive supplemental budget.

The final legally adopted budgets in the accompanying General Fund and Deposit Beverage Container Deposit Fund schedules of revenues and expenditures – budget and actual (budgetary basis) represent the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detailed level of control are maintained by and are available at the Department. During the year ended June 30, 2025, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, General Fund and Deposit Beverage Container Deposit Fund appropriations subject to budgetary control generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund and Deposit Beverage Container Deposit Fund are presented in the accompanying schedules of revenues and expenditures – budget and actual (budgetary basis). The Department's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

A reconciliation of revenues over expenditures (expenditures over revenues) on a budgetary basis for the year ended June 30, 2025 to excess of revenues over expenditures presented in conformity with GAAP follows:

	General	Deposit Beverage Container Deposit Fund
Excess of revenues over expenditures and other sources – actual on a budgetary basis	$ -	$ 6,024,152
Current year's appropriations encumbered at June 30, 2025	109,473,210	17,691,442
Expenditures for liquidation of prior fiscal year		
Expenditures for liquidation of prior fiscal year encumbrances	(137,552,009)	(20,059,956)
Accruals and other adjustments	87,840,760	11,523,628
Excess of revenues over expenditures – GAAP basis	$ 59,761,961	$ 15,179,266

See accompanying report of independent auditors.

Supplementary Information

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
Direct Programs				
Medical Reserve Corps Small Grant Program	93.008	—	$ -	$ 114,438
Special Programs for the Aging – Title VII Chapter 3	93.041	—	-	5,860
Special Programs for the Aging – Title VII Chapter 2	93.042	—	-	122,468
Special Programs for the Aging – Title III Part D				
COVID-19 Special Programs for the Aging – Title III Part D	93.043	—	5,709	5,709
Special Programs for the Aging – Title III Part D	93.043	—	9,550	9,550
Subtotal Special Programs for the Aging – Title III Part D			15,259	15,259
Special Programs for the Aging – Title IV and Title II – Discretionary Projects	93.048	—	-	664,989
National Family Caregiver Support, Title III, Part E				
COVID-19 National Family Caregiver Support, Title III, Part E	93.052	—	324,356	324,356
National Family Caregiver Support, Title III, Part E	93.052	—	152,669	152,669
Subtotal National Family Caregiver Support, Title III, Part E			477,025	477,025
Public Health Emergency Preparedness	93.069	—	-	7,104,343
Medicare Enrollment Assistance Program	93.071	—	-	141,844
Affordable Care Act ("ACA") Personal Responsibility Education Program	93.092	—	85,500	236,001
Food and Drug Administration Research	93.103	—	-	262,034
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances ("SED")	93.104	—	1,060,455	1,759,687
Maternal and Child Health Federal Consolidated Programs				
COVID-19 Maternal and Child Health Federal Consolidated Programs	93.110	—	311,709	562,173
Maternal and Child Health Federal Consolidated Programs	93.110	—	503,983	682,801
Subtotal Maternal and Child Health Federal Consolidated Programs			815,692	1,244,974
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	—	-	860,980
Emergency Medical Services for Children	93.127	—	-	147,111
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	—	76,561	224,434
Injury Prevention and Control Research and State and Community Based Programs	93.136	—	1,801,694	2,219,932
Projects for Assistance in Transition from Homelessness	93.150	—	21,063	21,063
Childhood Lead Poisoning Prevention Projects – State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	—	1,146	384,970
Hospitalization and Care of Hansen's Disease	93.215	—	-	1,061,347
State Rural Hospital Flexibility Program	93.241	—	269,141	475,918
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	—	5,722,362	10,906,634
Universal Newborn Hearing Screening	93.251	—	272,676	297,742
Immunization Cooperative Agreements				
COVID-19 Immunization Cooperative Agreements	93.268	—	-	5,847,398
Immunization Cooperative Agreements	93.268	—	-	24,867,118
Subtotal Immunization Cooperative Agreements			-	30,714,516
Adult Viral Hepatitis Prevention and Control	93.270	—	1,562	329,869
Small Rural Hospital Improvement Grant Program	93.301	—	183,771	183,771
Racial and Ethnic Approaches to Community Health	93.304	—	-	295,455
Early Hearing Detection and Intervention Information System ("EHDI-IS") Surveillance Program	93.314	—	117,723	237,260
Epidemiology and Laboratory Capacity for Infectious Diseases				
COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	—	-	21,459,160
Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	—	-	1,907,492
Subtotal Epidemiology and Laboratory Capacity for Infectious Diseases			-	23,366,652

(continued)

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

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
State Health Insurance Assistance Program	93.324	—	-	341,058
BOLD Public Health Program	93.334	—	-	377,422
Behavioral Risk Factor Surveillance System	93.336	—	-	471,241
PPHF 2018: Prevention Health and Health Services – Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health – Financed in part by Prevention and Public Health Funds ("PPHF")	93.430	—	-	68,917
COVID-19 Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	—	-	1,690,355
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	—	-	190,598
Subtotal Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response			-	1,880,953
National and State Tobacco Control Program	93.387	—	-	1,078,727
COVID-19 National Initiative to Address COVID-19 Health Disparities Among Populations at High-Risk and Underserved, Including Racial and Ethnic Minority Populations and Rural Communities	93.391	—	-	5,955,989
Improving Food Security, Access to Safe Physical Activity, and Social Connectedness	93.421	—	-	39,439
Improving the Health of Americans Through Prevention and Management of Diabetes and Heart Disease and Stroke	93.426	—	-	828,028
Well-Integrated Screening and Evaluation for Women Across the Nation	93.436	—	-	145,508
COVID-19 Community Health Workers for COVID Response and Resilient Communities ("CCR")	93.495	—	-	1,685,565
Community-Based Child Abuse Prevention Grants				
COVID-19 Community-Based Child Abuse Prevention Grants	93.590	—	255,500	305,395
Community-Based Child Abuse Prevention Grants	93.590	—	236,884	339,602
Subtotal Community-Based Child Abuse Prevention Grants			492,384	644,997
Developmental Disabilities Basic Support and Advocacy Grants	93.630	—	-	724,064
Maui County Certified Community Behavioral Health Clinic Planning, Development and Implementation	93.696	—	-	1,169,125
Opioid STR	93.788	—	2,327,770	3,275,741
Paul Coverdell National Acute Stroke Program	93.810	—	-	449,907
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829	—	-	33,750
Maternal, Infant and Early Childhood Home Visiting Grant Program				
COVID-19 Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	—	268,589	268,589
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	—	3,612,831	4,257,756
Subtotal Maternal, Infant and Early Childhood Home Visiting Grant Program			3,881,420	4,526,345
National Bioterrorism Hospital Preparedness Program	93.889	—	-	1,269,172
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	—	-	763,386
Grants to States for Operation of Offices of Rural Health	93.913	—	20,000	129,987
HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)	93.917	—	3,792,242	8,383,919
HIV Prevention Activities – Health Department Based	93.940	—	200,000	1,094,122
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	—	201,381	440,676
Block Grants for Community Mental Health Services				
COVID-19 Block Grants for Community Mental Health Services	93.958	—	3,055,143	3,640,946
Block Grants for Community Mental Health Services	93.958	—	1,158,856	3,589,555
Subtotal Block Grants for Community Mental Health Services			4,213,999	7,230,501

(continued)

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

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Block Grants for Prevention and Treatment of Substance Abuse				
COVID-19 Block Grants for Prevention and Treatment of Substance Abuse	93.959	—	3,536,686	3,536,686
Block Grants for Prevention and Treatment of Substance Abuse	93.959	—	8,546,854	8,593,643
Subtotal Block Grants for Prevention and Treatment of Substance Abuse			12,083,540	12,130,329
Aging Cluster				
COVID-19 Special Programs for the Aging – Title III Part B – Grants for Supportive Services and Senior Centers	93.044	—	369,864	369,864
Special Programs for the Aging – Title III Part B – Grants for Supportive Services and Senior Centers	93.044	—	5,173,073	5,772,420
Subtotal Special Programs for the Aging – Title III Part B – Grants for Supportive Services and Senior Centers			5,542,937	6,142,284
COVID-19 Special Programs for the Aging – Title III Part C – Nutrition Services				
Special Programs for the Aging – Title III Part C – Nutrition Services	93.045	—	686,011	686,011
Special Programs for the Aging – Title III Part C – Nutrition Services				
Special Programs for the Aging – Title III Part C – Nutrition Services	93.045	—	242,990	242,990
Subtotal Special Programs for the Aging – Title III Part C – Nutrition Services			929,001	929,001
Nutrition Services Incentive Program	93.053	—	159,425	159,425
Subtotal Aging Cluster			6,631,363	7,230,710
Medicaid Cluster				
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	—	-	3,524,644
Medical Assistance Program	93.778	—	-	1,093,739
Subtotal Medicaid Cluster			-	4,618,383
Strengthening U.S. Public Health Infrastructure, Workforce and Data Systems				
COVID-19 Strengthening U.S. Public Health Infrastructure, Workforce and Data Systems	93.967	—	-	1,721,293
Preventive Health Services – Sexually Transmitted Diseases Control Grants	93.977	—	71,980	872,032
Mental Health Disaster Assistance and Emergency Mental Health	93.982	—	852,523	956,382
Advancing Health Equity for Priority Populations with or at Risk for Diabetes in Hawaii	93.988	—	-	677,890
Preventive Health and Health Services Block Grant	93.991	—	14,874	966,885
Maternal and Child Health Services Block Grant to the States Improvement	93.994	—	12,473	2,231,490
Drug and Alcohol Services Information System	93 UNKNOWN	—	1,697	47,786
U.S. FDA Tobacco Retail Inspection Contract/Hawaii State Enforcement	93 UNKNOWN	—	326,539	446,778
VSCP Data & VSCP Special Projects	93 UNKNOWN	—	-	415,571
Hawaii State Mental Health Data Infrastructure Contract for Quality Improvement	93 UNKNOWN	—	-	72,751
Manufactured Food Training Program	93 UNKNOWN	—	-	9,485
Total – U.S. Department of Health and Human Services Programs			**46,045,815**	**159,282,880**
U.S. Department of Agriculture				
Direct Programs				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	—	-	487,516
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	—	3,885,152	31,720,892
WIC Grants to States ("WGS")	10.578	—	2,069	17,354
Total – U.S. Department of Agriculture Programs			**3,887,221**	**32,225,762**
U.S. Department of Defense				
Direct Program				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	—	-	325,135
Total – U.S. Department of Defense Programs			**-**	**325,135**

(continued)

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

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Environmental Protection Agency				
Direct Programs				
Air Pollution Control Program Support	66.001	—	-	867,797
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	—	-	55,952
Diesel Emissions Reduction Act State Grants	66.040	—	260,428	260,428
Multipurpose Grants to States and Tribes	66.204	—	-	7,498
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	—	-	2,369,312
State Public Water System Supervision	66.432	—	-	524,116
Water Infrastructure Improvements for the Nation Small and Underserved Communities Emerging Contaminants Grant Program	66.442	—	-	187,243
Reduction of Lead in Drinking Water	66.443	—	928,608	995,553
Water Quality Management Planning	66.454	—	-	138,945
Capitalization Grants for Clean Water State Revolving Funds	66.458	—	21,953,000	21,953,000
Nonpoint Source Implementation Grants	66.460	—	662,984	1,278,637
Capitalization Grants for Drinking Water State Revolving Funds	66.468	—	15,289,640	18,772,549
Beach Monitoring and Notification Program	66.472	—	-	264,363
Performance Partnership Grants	66.605	—	-	269,651
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	—	-	205,000
Hazardous Waste Management State Program Support	66.801	—	-	462,027
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	—	-	247,955
Underground Storage Tanks Prevention, Detection and Compliance Program	66.804	—	-	471,081
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	—	-	410,766
State and Tribal Response Program Grants	66.817	—	-	1,133,614
Total – Environmental Protection Agency Programs			**39,094,660**	**50,875,487**
U.S. Department of Education				
Direct Program				
Special Education – Grants for Infants and Families	84.181	—	172,881	2,153,213
Total – U.S. Department of Education Program			**172,881**	**2,153,213**
U.S. Department of Transportation				
Direct Programs				
Highway Safety Cluster				
State and Community Highway Safety	20.600	—	10,498	10,498
National Priority Safety Programs	20.616	—	54,826	54,826
Subtotal Highway Safety Cluster			65,324	65,324
Hazardous Materials Emergency Preparedness	20.703	—	-	50,178
Total – U.S. Department of Transportation Programs			**65,324**	**115,502**
U.S. Department of Treasury				
Passed through from the State of Hawaii				
COVID-19 Coronavirus State Fiscal Recovery Fund	21.027	SLFRFP0134	-	5,958,249
Total – U.S. Department of Treasury Programs			**-**	**5,958,249**
U.S. Department of Justice				
Direct Program				
Second Chance Act Reentry Initiative	16.812	—	-	661,594
Total – U.S. Department of Justice			**-**	**661,594**
Total expenditures of federal awards			**$ 89,265,901**	**$ 251,597,822**

(concluded)

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

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 year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Department.

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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Loans Outstanding

The Department had the following loan balances outstanding at June 30, 2025. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

Program Title	Assistance Listing Number	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Funds	66.458	$15,897,641
Capitalization Grants for Drinking Water State Revolving Funds	66.468	$48,080,218

4. Noncash Awards

The Department also receives noncash awards for the Immunization Cooperative Agreements Program. The Department expended approximately $21,887,000 in vaccines for the Immunization Cooperative Agreements Program for the year ended June 30, 2025.

5. Indirect Cost Rate

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

PART II
Compliance and Internal Control

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

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Health (the "Department"), as of and for the year ended June 30, 2025 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March 30, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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

Our consideration of internal control was for the limited purpose described in the 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 deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2025-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

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

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

The Department's Response to Findings

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Accuity LLP

Honolulu, Hawaii
March 30, 2026

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

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

The Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

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

Qualified Opinions on Major Federal Programs Identified in the Table Below
In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal programs identified in the table below for the year ended June 30, 2025.

Assistance Listing Number	Name of Federal Program
84.181	Special Education – Grants for Infants and Families
93.136	Injury Prevention and Control Research and State and Community Based Programs
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
93.788	Opioid STR
93.917	HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)
93.958 & COVID-19 – 93.958	Block Grants for Community Mental Health Services
93.959 & COVID-19 – 93.959	Block Grants for Prevention and Treatment of Substance Abuse

Unmodified Opinion on Each of the Other Major Federal Programs
In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2025.

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

Basis for Qualified and Unmodified Opinions

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

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

Matters Giving Rise to 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:

Finding No.	Assistance Listing Number	Name of Federal Program	Compliance Requirement
2025-002	84.181	Special Education – Grants for Infants and Families	Cash Management
	93.136	Injury Prevention and Control Research and State and Community Based Programs	
	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	
	93.788	Opioid STR	
	93.917	HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)	
	93.958 & COVID-19 – 93.958	Block Grants for Community Mental Health Services	
	93.959 & COVID-19 – 93.959	Block Grants for Prevention and Treatment of Substance Abuse	
2025-007	93.136	Injury Prevention and Control Research and State and Community Based Programs	Reporting
2025-009	93.788	Opioid STR	Reporting
2025-014	93.959 & COVID-19 – 93.959	Block Grants for Prevention and Treatment of Substance Abuse	Reporting

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

Responsibilities of Management for Compliance

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

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

Auditors' Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2025-003 through 2025-006, 2025-008, 2025-010 through 2025-013, and 2025-015. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 2025-002, 2025-007, 2025-009, and 2025-014 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Nos. 2025-003 through 2025-006, 2025-008, 2025-010 through 2025-013, and 2025-015 to be significant deficiencies.

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

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the other 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.

Accuity LLP

Honolulu, Hawaii
March 30, 2026

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

ACCUITY

Schedule of Findings and Questioned Costs

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

Section I – Summary of Auditors' Results

Financial Statements				
Type of auditors' report issued	**Unmodified**			
Internal control over financial reporting				
• Material weaknesses identified?	X	yes		no
• Significant deficiencies identified?		yes	X	none reported
Noncompliance material to financial statements noted?		yes	X	no
Federal Awards				
Internal control over major programs				
• Material weaknesses identified?	X	yes		no
• Significant deficiencies identified?	X	yes		none reported
Type of auditors' report issued on compliance for major programs	**Qualified**			
A qualified opinion was issued on the Department's compliance with its major federal programs for the year ended June 30, 2025, except for AL No. 10.557, *Special Supplemental Nutrition Program for Women, Infants and Children,* AL No. 66.458, *Capitalization Grants for Clean Water State Revolving Funds,* AL No. 66.468, *Capitalization Grants for Drinking Water State Revolving Funds,* AL Nos. 93.777 and 93.778, *Medicaid Cluster,* and AL No. 93.870 and COVID-19 – 93.870, *Maternal, Infant and Early Childhood Home Visiting Grant Program,* for which the opinion on compliance was unmodified.				
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	X	yes		no
Dollar threshold used to distinguish between type A and type B program	**$3,000,000**			
Auditee qualified as low-risk auditee?		yes	X	no

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

Identification of Major Programs

Federal AL Number	Name of Federal Program or Cluster
	Department of Agriculture
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
	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 Education
84.181	Special Education – Grants for Infants and Families
	Department of Health and Human Services
93.136	Injury Prevention and Control Research and State and Community Based Programs
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
93.788	Opioid STR
93.917	HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)
	Medicaid Cluster
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
	Maternal, Infant and Early Childhood Home Visiting Grant Program
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program
COVID-19 – 93.870	COVID-19 Maternal, Infant and Early Childhood Home Visiting Grant Program
	Block Grants for Community Mental Health Services
93.958	Block Grants for Community Mental Health Services
COVID-19 – 93.958	COVID-19 Block Grants for Community Mental Health Services
	Block Grants for Prevention and Treatment of Substance Abuse
93.959	Block Grants for Prevention and Treatment of Substance Abuse
COVID-19 – 93.959	COVID-19 Block Grants for Prevention and Treatment of Substance Abuse

Financial Statement Finding

Section II – Financial Statement Finding

Finding No. 2025-001: Preparation of Accrual Basis Financial Statements (Material Weakness)

Condition
We proposed and management accepted several audit adjustments related to the following items:

- Understatement of health resources expenditures of approximately $8.7 million.
- Understatement of the Hawaii Deposit Beverage Container Deposit Fund expenditures and revenues of approximately $9.2 million.
- Under accrual of vouchers payable of approximately $8.7 million.
- Understatement of cash of approximately $6.2 million.
- Under accrual of opioid settlement payables to counties of approximately $593 thousand.

Criteria
In accordance with Governmental Accounting Standards Board ("GASB") 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 and liabilities are required to be recorded only to the extent that their repayment will require the use of expendable available financial resources. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Effect
Due to inadequate review of third-party audit schedules and invoices received after fiscal year-end, audit adjustments were necessary to properly report the fiscal year 2025 financial statements.

Other misstatements identified were not corrected as they were deemed to be immaterial to the financial statements.

Cause and View of Responsible Officials
The deficiencies are due to inadequate review of third-party audit schedules and invoices received after fiscal year-end.

Recommendation
The Department of Health (the "Department") should continue to develop a well-defined, systematic, efficient and orderly process for financial reporting that includes a comprehensive set of policies and procedures necessary to establish internal control over financial reporting. The process and its key attributes (e.g., overall timing, methodology, format, and frequency of analysis) should be formally documented, approved, communicated to Department staff members, and monitored on a regular basis.

Federal Award Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

			Questioned Cost
Finding No. 2025-002:	**Cash Management (Material Weakness)**		**$ -**
Federal Agency:	U.S. Department of Education U.S. Department of Health and Human Services		
AL Number and Title:	84.181 – *Special Education – Grants for Infants and Families* 93.136 – *Injury Prevention and Control Research and State and Community Based Programs* 93.243 – *Substance Abuse and Mental Health Services – Projects of Regional and National Significance* 93.788 – *Opioid STR* 93.917 – *HIV Care Formula Grants (Ryan White HIV/ AIDS Program Part B)* 93.958 and COVID-19 – 93.958 – *Block Grants for Community Mental Health Services* 93.959 and COVID-19 – 93.959 – *Block Grants for Prevention and Treatment of Substance Abuse*		
Award Number and Award Year:	H181A230091	2024	
	H181A240091	2025	
	1 NU17CE010195-01-00	2024	
	5 NU17CE010195-02-00	2025	
	1H79SP083658-00	2024	
	5H79SP083658-02	2025	
	6H79TI085722-02	2024	
	1H79TI087823-01	2025	
	5 X07HA00050-34-00	2025	
	6 X07HA00050-34-01	2025	
	5 X07HA00050-35-00	2026	
	6 X07HA00050-35-01	2026	
	1B09SM087286-01	2024	
	1B09SM087354-01	2024	
	1B09SM089619-01	2025	
	1B09SM090337-01	2025	
	1B08TI085808-01	2024	
	1B08TI087040-01	2025	
Repeat Finding?	No		

Condition
During our testing of the Department's cash management procedures, we could not verify whether the State of Hawaii, Department of Accounting and General Services ("DAGS") disbursed funds from federal sources as close as administratively feasible for federal expenditures after the Department drew down the funds.

Criteria
The programs are subject to 2 CFR 200.305 and 31 CFR 205 Subpart B for federal assistance programs not listed in the State of Hawaii's Treasury-State Agreement.

Per 31 CFR 205.33, the timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the recipient or subrecipient for direct program or project costs and the proportionate share of any allowable indirect costs.

Effect
The Department does not have policies and procedures in place over cash management and may not be in compliance with federal requirements.

Cause and View of Responsible Officials
There are no policies and procedures in place to ensure compliance with 2 CFR 200.305 and 31 CFR 205 Subpart B. The State has been dealing with this issue for multiple audit years and it affects multiple State agencies in the Executive Branch that receive federal funds. The Department intends to review their options and potentially develop policies and procedures to address the systematic issue going forward.

Recommendation
We recommend that the Department work with DAGS and the Department of Budget and Finance to ensure timely disbursement of federal funds in accordance with 2 CFR 200.305 and 31 CFR 205 Subpart B. In addition, the Department should develop policies and procedures to adequately track the disbursement of federal cash drawdowns to ensure compliance with timeliness standards.

			Questioned Cost
Finding No. 2025-003:	**Cash Management (Significant Deficiency)**		**$ -**
Federal Agency:	U.S. Department of Agriculture		
AL Number and Title:	10.557 – *Special Supplemental Nutrition Program for Women, Infants and Children*		
Award Number and Award Year:	227HIHI17M2004	2022	
	247HIHI17W1003	2024	
	257HIHI17W1003	2025	
Repeat Finding?	Yes		

Condition
During our audit, we examined 11 haphazardly selected drawdowns and identified two instances totaling approximately $216,000 in which the time elapsing between the receipt of federal award and the disbursement was greater than 21 days, ranging from 22 to 28 days. While the expenditures were allowable costs under the grant, it does not appear the Department disbursed these federal advances as soon as administratively feasible.

Criteria
31 CFR 205.33 requires the Department to minimize the time between the receipt of federal funds from the federal government and the disbursement of the funds for federal program purposes. Therefore, the timing and amount of funds being requested and received must be as close as administratively feasible to the Department's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The State of Hawaii, Department of Budget and Finance has determined and communicated in Finance Memorandum 20-02 that their standard for an "administratively feasible time period" was 21 calendar days for Summary Warrant Voucher ("SWV") transactions.

Effect
Without minimizing time between the drawdown and disbursement of federal funds, the Department is not in compliance with federal requirements.

Cause and View of Responsible Officials
The drawdown requests were submitted by the program in a timely manner; however, the funds were not disbursed timely by DAGS.

Recommendation
We recommend that the Department work with DAGS to ensure timely disbursement of federal funds in accordance with 310 CFR 205.33 and Finance Memorandum 20-02.

			Questioned Cost
Finding No. 2025-004:	**Procurement and Suspension and Debarment (Significant Deficiency)**		$ -
Federal Agency:	U.S. Department of Agriculture		
AL Number and Title:	10.557 – *Special Supplemental Nutrition Program for Woman, Infants, and Children*		
Award Number and Award Year:	247HIHI17W1003 257HIHI17W1003	2024 2025	
Repeat Finding?	No		

Condition
During our audit, we tested a non-statistical sample of four contract procurements. While we noted through our testing that the contractors were not suspended or debarred, we found no evidence indicating that program personnel verified whether any of the contractors were federally suspended or debarred.

Criteria
Per 2 CFR 180.300, before entering into a covered transaction, the non-federal entity must verify that the entity is not debarred, suspended or otherwise excluded from participating in federal programs.

Effect
Failure to review the vendor's debarment and suspension status may result in entering a covered transaction with excluded vendors.

Cause and View of Responsible Officials
The noncompliance was caused by a lack of state-wide policies and procedures covering the exclusion check requirement for all procurement types.

Recommendation
All personnel involved in the procurements of contracts should receive adequate training about federal compliance requirements related to such program. In addition, an individual should be assigned the responsibility to determine whether the vendor is not debarred or suspended from entering the transaction.

			Questioned Cost
Finding No. 2025-005:	**Procurement and Suspension and Debarment (Significant Deficiency)**		$ -
Federal Agency:	U.S. Environmental Protection Agency		
AL Number and Title:	66.468 – *Capitalization Grants for Drinking Water State Revolving Funds*		
Award Number and Award Year:	4D-97T15201-1	2024	
Repeat Finding?	No		

Condition
During our audit, we tested a non-statistical sample of one contract procurement. While we noted through our testing that the contractor was not suspended or debarred, we found no evidence indicating that program personnel verified whether the contractor was federally suspended or debarred.

Criteria
Per 2 CFR 180.300, before entering into a covered transaction, the non-federal entity must verify that the entity is not debarred, suspended or otherwise excluded from participating in federal programs.

Effect
Failure to review the vendor's debarment and suspension status may result in entering a transaction with excluded vendors.

Cause and View of Responsible Officials
The Drinking Water Treatment Revolving Loan Fund did not perform the debarment and suspension verification via SAM.gov due to misinterpretation of the control policy.

Recommendation
All personnel involved in the procurements of contracts should receive adequate training about federal compliance requirements related to such program. In addition, an individual should be assigned the responsibility to determine whether the vendor is not debarred or suspended from entering the transaction.

			Questioned Cost
Finding No. 2025-006:	**Procurement and Suspension and Debarment (Significant Deficiency)**		$ -
Federal Agency:	U.S. Department of Education		
AL Number and Title:	84.181 – *Special Education – Grants for Infants and Families*		
Award Number and Award Year:	H181A230091 H181A240091	2024 2025	
Repeat Finding?	No		

Condition
During our audit, we tested a non-statistical sample of three contract procurements. While we noted through our testing that the contractors were not suspended or debarred, for two of the procurements, we found no evidence indicating that program personnel verified whether any of the contractors were federally suspended or debarred.

Criteria
Per 2 CFR 180.300, before entering into a covered transaction, the non-federal entity must verify that the entity is not debarred, suspended or otherwise excluded from participating in federal programs.

Effect
Failure to review the vendor's debarment and suspension status may result in entering a covered transaction with excluded vendors.

Cause and View of Responsible Officials
The noncompliance was caused by a lack of state-wide policies and procedures covering the exclusion check requirement for all procurement types.

Recommendation
All personnel involved in the procurements of contracts should receive adequate training about federal compliance requirements related to such program. In addition, an individual should be assigned the responsibility to determine whether the vendor is not debarred or suspended from entering the transaction.

		Questioned Cost
Finding No. 2025-007:	**Reporting (Material Weakness)**	**$ -**
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.136 – *Injury Prevention and Control Research and State and Community Based Programs*	
Award Number and Award Year:	1 NU17CE010195-01-00 2024 5 NU17CE010195-02-00 2025	
Repeat Finding?	No	

Condition
During our audit, we tested a non-statistical sample of two subawards and found that the reporting required by Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of the Federal Funding Accountability and Transparency Act ("FFATA") was not completed.

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
2	2	–	–	–
Dollar Amount of Tested Transactions	**Subaward Not Reported**	**Report Not Timely**	**Subaward Amount Incorrect**	**Subaward Missing Key Elements**
$1,084,486	$1,084,486	–	–	–

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

Effect
Failure to file required reports reduces transparency on the use of program funds and represents noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials
The noncompliance was caused by both the lack of time allotted to the program personnel to complete the reporting and the change in FFATA reporting procedures due to the transition to SAM.gov from FSRS.

Recommendation
We recommend that the Department develop procedures to ensure that FFATA reports are submitted in a timely manner.

		Questioned Cost
Finding No. 2025-008:	**Reporting (Significant Deficiency)**	**$ -**
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.136 – *Injury Prevention and Control Research and State and Community Based Programs*	
Award Number and Award Year:	1 NU17CE010195-01-00 2024	
Repeat Finding?	No	

Condition
During our audit, we tested a non-statistical sample of one annual financial report and found that the report was submitted 286 calendar days after the conclusion of the reporting period.

Criteria
Per 2 CFR 200.328 and terms of the federal award, financial reports submitted annually by the recipient or subrecipient are due no later than 90 calendar days after the conclusion of the reporting period.

Effect
Failure to submit the report in a timely manner may result in noncompliance with financial reporting requirements and limits the transparency of the program's operations.

Cause and View of Responsible Officials
The noncompliance was due to lag caused by the completion of close-out procedures.

Recommendation
We recommend that the Department establish policies and procedures to ensure that the required reports are submitted timely, including consideration of the time necessary to perform award close-out procedures.

			Questioned Cost
Finding No. 2025-009:	**Reporting (Material Weakness)**		**$ -**
Federal Agency:	U.S. Department of Health and Human Services		
AL Number and Title:	93.788 – *Opioid STR*		
Award Number and Award Year:	6H79TI085722-02 1H79TI087823-01	2024 2025	
Repeat Finding?	Yes		

Condition
During our audit, we tested a non-statistical sample of two subawards and found that the reporting required by Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of FFATA was not completed.

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
2	2	–	–	–
Dollar Amount of Tested Transactions	**Subaward Not Reported**	**Report Not Timely**	**Subaward Amount Incorrect**	**Subaward Missing Key Elements**
$212,000	$212,000	–	–	–

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

Effect
Failure to file required reports reduces transparency on the use of program funds and represents noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials
The noncompliance was caused by both the lack of time allotted to the program personnel to complete the reporting and the change in FFATA reporting procedures due to the transition to SAM.gov from FSRS.

Recommendation
We recommend that the Department develop procedures to ensure that FFATA reports are submitted in a timely manner.

			Questioned Cost
Finding No. 2025-010:	**Procurement and Suspension and Debarment (Significant Deficiency)**		$ -
Federal Agency:	U.S. Department of Health and Human Services		
AL Number and Title:	93.870 – *Maternal, Infant and Early Childhood Home Visiting Grant Program*		
Award Number and Award Year:	6 X10MC46861-01-01 1 X10MC50297-01-00	2024 2025	
Repeat Finding?	No		

Condition
During our audit, we tested a non-statistical sample of two contract procurements. While we noted through our testing that the contractors were not suspended or debarred, we found no evidence indicating that program personnel verified whether any of the contractors were federally suspended or debarred.

Criteria
Per 2 CFR 180.300, before entering into a covered transaction, the non-federal entity must verify that the entity is not debarred, suspended or otherwise excluded from participating in federal programs.

Effect
Failure to review the vendor's debarment and suspension status may result in entering a covered transaction with excluded vendors.

Cause and View of Responsible Officials
The noncompliance was caused by a lack of state-wide policies and procedures covering the exclusion check requirement for all procurement types.

Recommendation
All personnel involved in the procurements of contracts should receive adequate training about federal compliance requirements related to such program. In addition, an individual should be assigned the responsibility to determine whether the vendor is not debarred or suspended from entering the transaction.

		Questioned Cost
Finding No. 2025-011:	**Reporting (Significant Deficiency)**	**$ -**
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.870 – *Maternal, Infant and Early Childhood Home Visiting Grant Program*	
Award Number and Award Year:	1 X10MC50297-01-00 2025	
Repeat Finding?	No	

Condition
During our audit, we tested a non-statistical sample of three subawards and were unable to verify that the reporting required by Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of FFATA was completed timely.

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
3	–	3	–	–
Dollar Amount of Tested Transactions	**Subaward Not Reported**	**Report Not Timely**	**Subaward Amount Incorrect**	**Subaward Missing Key Elements**
$469,295	–	$469,295	–	–

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

Effect
Failure to file required reports timely reduces transparency on the use of program funds and represents noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials
The subawards were reported in a timely manner but the program did not retain evidence of the submission dates.

Recommendation
We recommend that program management retain evidence that FFATA reports were submitted timely.

		Questioned Cost
Finding No. 2025-012:	**Reporting (Significant Deficiency)**	**$ -**
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.958 and COVID-19 – 93.958 – *Block Grants for Community Mental Health Services*	
Award Number and Award Year:	1B09SM089619-01 2025	
Repeat Finding?	No	

Condition
During our audit, we tested a non-statistical sample of six subawards and found that the reporting required by Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of FFATA was not completed timely.

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
6	–	6	–	–
Dollar Amount of Tested Transactions	**Subaward Not Reported**	**Report Not Timely**	**Subaward Amount Incorrect**	**Subaward Missing Key Elements**
$1,027,486	–	$1,027,486	–	–

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

Effect
Failure to file required reports reduces transparency on the use of program funds and represents an instance of noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials
The noncompliance was caused by the lack of time allotted to the program personnel to complete the reporting due to the change from FSRS to SAM.gov and lack of system access until August 2025.

Recommendation
We recommend that the Department develop procedures to ensure that FFATA reports are submitted in a timely manner.

			Questioned Cost
Finding No. 2025-013:	**Subrecipient Monitoring (Significant Deficiency)**		$ -
Federal Agency:	U.S. Department of Health and Human Services		
AL Number and Title:	93.958 and COVID-19 – 93.958 – *Block Grants for Community Mental Health Services*		
Award Number and Award Year:	1B09SM083952	2023	
	6B09SM087354	2024	
	1B09SM085353	2025	
Repeat Finding?	Yes		

Condition
During our audit, we examined a non-statistical sample of three subawards and noted no evidence of the pass-through entity verifying that subrecipients are audited as required by 2 CFR Section 200, Subpart F.

Criteria
2 CFR Section 200.332(f) requires a pass-through entity to verify that every subrecipient is audited as required by 2 CFR Section 200, Subpart F, when it is expected that the subrecipient's expenditures exceed applicable thresholds.

Effect
By not verifying whether the subrecipient is audited, the Department may not be providing the appropriate level of monitoring over its subrecipients.

Cause and View of Responsible Officials
The noncompliance was caused by the lack of internal controls in place to ensure monitoring procedures are performed for applicable subrecipients.

Recommendation
We recommend that the Department establish policies and procedures to ensure that the required subrecipient Single Audit reports are obtained and reviewed.

			Questioned Cost
Finding No. 2025-014:	**Reporting (Material Weakness)**		$ -
Federal Agency:	U.S. Department of Health and Human Services		
AL Number and Title:	93.959 and COVID-19 – 93.959 – *Block Grants for Prevention and Treatment of Substance Abuse*		
Award Number and Award Year:	6B08TI085808-01	2024	
	6B08TI083500-01	2025	
	1B08TI083943-01	2025	
	1B08TI084582-01	2025	
	1B08TI087040-01	2025	
Repeat Finding?	Yes		

Condition
During our audit, we tested a non-statistical sample of seven subawards and found that the reporting required by Section 2, *Full Disclosure of Entities Receiving Federal Funding*, of FFATA was not completed.

Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
7	7	–	–	–
Dollar Amount of Tested Transactions	**Subaward Not Reported**	**Report Not Timely**	**Subaward Amount Incorrect**	**Subaward Missing Key Elements**
$15,600,000	$15,600,000	–	–	–

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

Effect
Failure to file required reports reduces transparency on the use of program funds and represents noncompliance with the requirements of 2 CFR Part 200.

Cause and View of Responsible Officials
The noncompliance was caused by both the lack of time allotted to the program personnel to complete the reporting and the change in FFATA reporting procedures due to the transition to SAM.gov from FSRS.

Recommendation
We recommend that the Department develop procedures to ensure that FFATA reports are submitted in a timely manner.

		Questioned Cost
Finding No. 2025-015:	**Reporting (Significant Deficiency)**	**$ -**
Federal Agency:	U.S. Department of Health and Human Services	
AL Number and Title:	93.959 and COVID-19 – 93.959 – *Block Grants for Prevention and Treatment of Substance Abuse*	
Award Number and Award Year:	6B08TI085808-01 2024	
Repeat Finding?	No	

Condition
During our audit, we tested a non-statistical sample of one final financial report and found that the report was submitted 128 calendar days after the conclusion of the period of performance.

Criteria
Per 2 CFR 200.328 and terms of the federal award, the final financial report submitted by the recipient is due no later than 120 calendar days after the conclusion of the period of performance.

Effect
Failure to submit the report in a timely manner may result in noncompliance with financial reporting requirements and limits the transparency of the program's operations.

Cause and View of Responsible Officials
The noncompliance was due to a lag caused by the completion of close-out procedures.

Recommendation
We recommend that the Department establish policies and procedures to ensure that the required reports are submitted timely, including consideration of the time necessary to perform award close-out procedures.

JOSH GREEN, M.D.
GOVERNOR OF HAWAI'I
KE KIA'ĀINA O KA MOKU'ĀINA 'O HAWAI'I

KENNETH S. FINK, MD, MGA, MPH
DIRECTOR OF HEALTH
KA LUNA HO'OKELE

STATE OF HAWAI'I
DEPARTMENT OF HEALTH
KA 'OIHANA OLAKINO
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

ASO-F26-257

March 30, 2026

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

Subject: Corrective Action Plan for Findings and Recommendations for the Department of Health, State Fiscal Year Ended June 30, 2025.

Dear Mr. Kondo,

Attached are the Correction Action Plan for the Department of Health's audit findings for the above-mentioned audit of the Department of Health.

We appreciate the opportunity to comment on the report.

Sincerely,

Kenneth S. Fink, MD, MGA, MPH
Director of Health

Attachment

Summary Schedule of Prior Audit Findings

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

Finding	Description	Type	Status		Current Year Finding
			Resolved	Unresolved	
2024-001	Vouchers Payable Accrual – Deposit Beverage Container Deposit Fund	Material Weakness	X		
2024-002	Reliance on Third Party Certifications	Significant Deficiency		X	
2024-003	Schedule of Expenditures of Federal Awards ("SEFA") Preparation	Significant Deficiency	X		
2024-004	Cash Management	Material Weakness		X	2025-003
2024-005	Reporting	Material Weakness	X		
2024-006	Reporting	Material Weakness		X	2025-009
2024-007	Earmarking	Material Weakness	X		
2024-008	Subrecipient Monitoring	Material Weakness		X	2025-013
2024-009	Reporting	Material Weakness		X	2025-014

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

Corrective Actions Taken for Unresolved Findings

Finding No. 2024-002: Reliance on Third Party Certifications
Corrective actions were taken in fiscal year 2025; however, corrective action is still ongoing.

Finding No. 2024-004: Cash Management
Corrective actions were taken in fiscal year 2025; however, corrective action is still ongoing. As a current year finding (Finding No. 2025-003) is reported, Finding No. 2024-004 will not be carried forward.

Finding No. 2024-006: Reporting
Corrective actions were taken in fiscal year 2025 for the submission of the Federal Financial Report. However, corrective action for FFATA reporting is still ongoing. As a current year finding (Finding No. 2025-009) is reported, Finding No. 2024-005 will not be carried forward.

Finding No. 2024-008: Subrecipient Monitoring
Corrective actions were taken in fiscal year 2025; however, corrective action is still ongoing. As a current year finding (Finding No. 2025-013) is reported, Finding No. 2024-008 will not be carried forward.

Finding No. 2024-009: Reporting
Corrective actions were taken in fiscal year 2025; however, corrective action is still ongoing. As a current year finding (Finding No. 2025-014) is reported, Finding No. 2024-009 will not be carried forward.

Corrective Action Plan

Page(s), Finding	Corrective Action Plans Update, Status, Responding Official
P69 **2025-001**	**Corrective Action Plan:** ASO was not provided guidance by the auditor on the review criteria of what was being examined during the audit preparation. Program documents were accurate and no adjustments were made to the existing financial records. ASO will continue to review financial data before sending to the state's auditor for review. **Implementation Date:** July 1, 2026 **Responding Official:** Janis Morita, Chief and Kelson Paiva, Fiscal Manager, Administrative Services Office
P70-71 **2025-002**	**Corrective Action Plan:** The State's requirement for disbursing the drawn down of funds involves multiple steps that involve multiple agencies to get processed. The Department of Budget and Finance (B&F) 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. There are external factors involved in receiving the funds from federal granting agencies which can take between 4-7 business days to be reflected in the financial system. If there is any negative allotment and/or negative cash balances on the account, disbursement of SWV payments may be delayed until resolution can be processed by B&F and Department of Accounting and General Services (DAGS) which can take between 10-14 business days. This is a multi-year repeated finding that both B&F and DAGS are aware of, however, ASO will continue to send SWV processed payment requests to DAGS for disbursement. **Implementation Date:** N/A **Responding Official:** State of Hawaii, Department of Budget and Finance and State of Hawaii, Department of Accounting and General Services
P72 **2025-003**	**Corrective Action Plan:** **1. Corrective Actions** **A. Strengthen Coordination with DAGS** • Establish a formal internal communication protocol outlining how and when to communicate with DAGS to prioritize federal fund disbursements.

	• The Branch will continue to conduct regular weekly status meetings to review outstanding disbursements. **B. Establish Escalation Procedures** • Create escalation timelines (e.g., at 14 days and 18 days) to notify management and DAGS of pending delays. • Assign responsibility for follow-up actions to designated fiscal staff. **In addition to the Corrective Actions listed above, the Branch will:** **A. Continue to use Drawdown-to-Disbursement Tracking** • WIC Branch has developed and maintains a tracking log to monitor: o Date of federal drawdown o Date funds are received o Date of disbursement • Continue to flag transactions approaching 21 days for immediate follow-up. **B. Review Established Internal Procedures with Staff** • WIC written policies and procedures include: o The 21-day disbursement requirement o Roles and responsibilities for monitoring compliance • Continue to align internal timelines to ensure disbursement occurs as soon as administratively feasible. **Please see FY24_State Audit_CAP_WIC.docx for details on procedures currently implemented** **C. Staff Training and Awareness** • Provide training to fiscal and program staff on federal cash management requirements and updated procedures. • Reinforce the importance of timely disbursement and compliance with federal regulations. **2. Monitoring and Review** • Management will continue to review the tracking log on a daily basis to ensure compliance. • Any instances exceeding the 21-day requirement will be documented, investigated, and addressed promptly. **Implementation Date:** April 30, 2026 **Responding Official:** Michael Ellis, VMS IV/ TA Administrative Officer, Family Health Services Division
P73 **2025-004**	**Corrective Action Plan:** **1. Corrective Action(s)** To address this issue, the following actions will be implemented: **Establish Formal Policies and Procedures** Develop and implement internal written policies and procedures requiring verification of contractor suspension and debarment status for all procurement types prior to award. Procedures will include:

	• Mandatory checks using the System for Award Management (SAM.gov) or other approved federal sources • Documentation requirements (e.g., screenshots or saved verification records) • Clear guidance on timing (prior to contract execution) A. **Assign Responsibility** Designate specific personnel responsible for performing and documenting the suspension and debarment verification for each procurement. B. **Implement Training** Provide mandatory training for all staff involved in procurement activities covering: • Federal compliance requirements under 2 CFR 180.300 • Procedures for conducting and documenting debarment/suspension checks • Consequences of noncompliance C. **Introduce a Compliance Checklist** Develop a standardized procurement checklist that includes suspension/debarment verification as a required step before contract approval. D. **Monitoring and Quality Assurance** • Conduct periodic internal reviews of procurement files to ensure compliance • Implement supervisory review/approval to confirm verification has been completed and documented **2. Monitoring Plan** • Quarterly internal audits of a sample of procurements • Annual refresher training for procurement staff • Ongoing updates to policies as federal requirements change **Implementation Date:** June 23, 2026 **Responding Official:** Michael Ellis, VMS IV/ TA Administrative Officer, Family Health Services Division
P74 **2025-005**	**Corrective Action Plan:** The program has notified personnel involved in the procurement of contracts to ensure that the vendor is registered in sam.gov if contract is funded by federal funds. Debarment and suspension check documentation will be kept in the contract file. **Implementation Date:** December 1, 2025 **Responding Official:** Gaudencio Lopez, Safe Drinking Water Branch Chief, Environmental Management Division

P75 **2025-006**	**Corrective Action Plan:** All DOH FHSD-CSHNB-EIS fiscal and contracts staff, EIS Supervisor, and CSHNB Chief, involved in the management and administration of US DOE-OSEP IDEA Part-C Federal Grant should receive adequate training regarding this specific (as well as general) federal compliance requirements related to IDEA Part-C. This training includes, but is not limited to, correcting a widespread misunderstanding (throughout DOH and the State of Hawaii) that the State's Hawaii-level Compliance Express (HCE) and Certificate of Vendor Compliance (CVC) process verifies whether any and all vendors, utilizing IDEA Part-C Federal Grant funding, are in fact Federally debarred or suspended. DAGS-SPO confirmed, during this audit process, that the State of Hawaii HCE-CVC process does not check for this particular compliance requirement. Since the SFY2025 audit period covered, DOH CSHNB-EIS has implemented (as of SFY2026) a Federal Certification process into all Part-C supporting RFPs and resulting ASO Log Contracts. This Federal Certification requires all awarded vendors, potentially receiving IDEA Part-C Federal Grant funding, to attest that they are not Federally debarred or suspended from entering the contract and/or IDEA Part C transaction. While RFP and ASO Log Contracts are covered under this new Federal Certification process, DOH CSHNB-EIS will also begin requiring this Federal Certification attestation for all prospective IDEA Part-C vendors (i.e., Small Purchase Contracts (SPO-10 or HIePRO), 103D procurement exempt). This Federal Certification attestation option has been determined to be preferable to alternative verification methods (e.g., sam.gov's *Entity Federal Exclusion List*) as, for a multitude of reasons, vendor compliance in the State of Hawaii is managed at the State level (e.g., DAGS-SPO). Currently, both CSHNB Administrative Specialist and EIS' Contract Specialist are jointly responsible for ensuring that the corrective actions noted above are implemented and adhered to. While most of the corrective actions were already being implemented, as of SFY2026, the implementation date below reflects when all corrective actions (to include training) will be implemented. **Implementation Date:** July 1, 2026 **Responding Official:** Ian Tholen, Administrative Specialist, Family Health Services Division
P76 **2025-007**	**Corrective Action Plan:** The program will establish and implement policies and procedures relating to the FFATA to comply with the Federal reporting requirement. **Implementation Date:** March 31, 2026

	Responding Official: John Valera and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division
P77 **2025-008**	**Corrective Action Plan:** The program will establish and implement policies and procedures relating to the receipt of the subrecipient financial report. **Implementation Date:** June 30, 2026 **Responding Official:** John Valera and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division
P78 **2025-009**	**Corrective Action Plan:** The program will establish and implement policies and procedures relating to the FFATA to comply with the Federal reporting requirement. **Implementation Date:** June 30, 2026 **Responding Official:** John Valera and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division
P79 **2025-010**	**Corrective Action Plan:** The Home Visiting Section Unit (HVSU) has established a procedure requiring verification of each contractor's suspension and debarment status through the System for Award Management (SAM.gov) prior to the full execution of any new contract or contract modification order. SAM.gov exclusion search results are documented and retained in the procurement file as evidence of the verification. All current contracts and contracts from the prior project period have been reviewed and documented for compliance. HVSU program staff involved in procurement have been informed of this requirement. **Implementation Date:** March 23, 2026 **Responding Official:** Jeremy Heyer, Human Services Professional, Family Health Services Division
P80 **2025-011**	**Corrective Action Plan:** The HVSU has implemented a procedure to retain evidence of timely FFATA report submissions. Upon submission of each FFATA report in the FFATA Subaward Reporting System (FSRS), the HVSU accountant will email the HVSU supervisor confirming the submission date. This email serves as documented evidence of timely reporting, as the federal system does not reliably display submission timestamps. This confirmation will be

	retained in program files to demonstrate compliance with the reporting timeline required under Section 2 of FFATA. **Implementation Date:** March 23, 2026 **Responding Official:** Jeremy Heyer, Human Services Professional, Family Health Services Division
P81 **2025-012**	**Corrective Action Plan:** • Department has provided appropriate staff access to SAM.gov • Relevant staff are aware of the FFATA reporting requirements • Staff are adjusting their procedure to follow all deadlines following the initiation of a subaward or any modifications to that subaward that include a source of fund change. **Implementation Date:** September 1, 2025 **Responding Official:** Keli Acquaro, Administrator, Child and Adolescent Mental Health Division
P82 **2025-013**	**Corrective Action Plan:** • All subrecipients are now going to be required to submit a single audit report. • Staff are aware of expectation for subrecipients to routinely submit the single audit report annually consistently with their contract requirement. Staff will review the single audit reports upon receipt from subrecipients. **Implementation Date:** February 1, 2026 **Responding Official:** Keli Acquaro, Administrator, Child and Adolescent Mental Health Division
P83 **2025-014**	**Corrective Action Plan:** The program will establish and implement policies and procedures relating to the FFATA to comply with the Federal reporting requirement. **Implementation Date:** June 30, 2026 **Responding Official:** John Valera and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division
P85 **2025-015**	**Corrective Action Plan:**

	The program will establish and implement policies and procedures relating to the receipt of the subrecipient financial report. **Implementation Date:** June 30, 2026 **Responding Official:** John Valera and Melanie Muraoka, Administrative Officer/Alcohol and Drug Abuse Division