HAWEI PUBLIC HEALTH INSTITUTE

FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORTS,
AND SUPPLEMENTARY SCHEDULE

As of and for the Year Ended December 31, 2017
HAWAII PUBLIC HEALTH INSTITUTE

INTRODUCTION

For the Year Ended December 31, 2017

Hawaii Public Health Institute (Institute) is a nonprofit corporation organized in the State of Hawaii in October 2006 as the Coalition for a Tobacco-Free Hawaii. The name of the Institute was changed in 2013. The mission of the Institute is to build healthier communities in Hawaii by providing issue-based advocacy and education, technical assistance, and other capacity building services through partnerships with government, academia, foundations, businesses and community-based organizations.

The Institute is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Institute are tax deductible.

The Institute receives federal awards indirectly from the U.S. Department of Health and Human Services through the State of Hawaii Department of Health for its National State Based Tobacco Control Programs and State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke (PPHF) program.

This report is the result of the single audit of the Institute conducted in accordance with auditing standards generally accepted in the United States of America; 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

This report includes the financial statements of the Institute as of and for the year ended December 31, 2017 (with prior year comparative information), with the independent auditor’s report and the notes to the financial statements. It also includes the independent auditor’s reports required by the Government Accountability Office’s (GAO) Government Auditing Standards, and the schedule of expenditures of federal awards and independent auditor’s reports required by the Uniform Guidance for the year ended December 31, 2017. Findings and questioned costs, and a corrective action plan, are reported by the auditor under those captions in the final sections of this report.
# HAWAII PUBLIC HEALTH INSTITUTE

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<tr>
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INDEPENDENT AUDITOR’S REPORT

Hawaii Public Health Institute:

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Public Health Institute (Institute), a nonprofit Hawaii corporation, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

The accompanying prior year comparative information has been derived from the Institute’s financial statements as of and for the year ended December 31, 2016 and, in our report dated September 27, 2017, we expressed an unmodified opinion on those financial statements. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2018, on our consideration of the Institute’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Institute’s internal control over financial reporting and compliance.

Honolulu, Hawaii
September 27, 2018
HAWAII PUBLIC HEALTH INSTITUTE

STATEMENT OF FINANCIAL POSITION

As of December 31, 2017
(With Prior Year Comparative Information)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash (including interest-bearing accounts)</td>
<td>$931,631</td>
<td>$338,041</td>
</tr>
<tr>
<td>Funds held in trust</td>
<td>104,778</td>
<td>53,534</td>
</tr>
<tr>
<td>Accounts receivable – net</td>
<td>482,435</td>
<td>505,267</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>-</td>
<td>5,266</td>
</tr>
<tr>
<td>Total current assets</td>
<td>1,518,844</td>
<td>902,108</td>
</tr>
<tr>
<td>PROPERTY AND EQUIPMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>33,657</td>
<td>20,778</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(9,615)</td>
<td>(5,843)</td>
</tr>
<tr>
<td>Property and equipment – net</td>
<td>24,042</td>
<td>14,935</td>
</tr>
<tr>
<td>SECURITY DEPOSITS</td>
<td>4,061</td>
<td>3,961</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$1,546,947</td>
<td>$921,004</td>
</tr>
</tbody>
</table>

| LIABILITIES AND NET ASSETS                       |          |          |
| CURRENT LIABILITIES                              |          |          |
| Accounts payable                                 | $50,747  | $134,338 |
| Accrued liabilities                              | 25,782   | 27,524   |
| Liability for funds held in trust                | 104,778  | 53,534   |
| Refundable advances                              | 227,112  | 160,939  |
| Total current liabilities                        | 408,419  | 376,335  |
| NET ASSETS                                       |          |          |
| Unrestricted                                     | 972,446  | 544,669  |
| Temporarily restricted                           | 166,082  | -        |
| Total net assets                                 | 1,138,528| 544,669  |
| TOTAL LIABILITIES AND NET ASSETS                 | $1,546,947| $921,004 |

See accompanying notes to the financial statements.
HAWAII PUBLIC HEALTH INSTITUTE

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017
(With Prior Year Comparative Information)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHANGES IN UNRESTRICTED NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue and support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government grants and contracts</td>
<td>$2,003,811</td>
<td>$1,531,830</td>
</tr>
<tr>
<td>Program income</td>
<td>364,612</td>
<td>50,824</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>229,298</td>
<td>50,000</td>
</tr>
<tr>
<td>Other income</td>
<td>22,219</td>
<td>22,240</td>
</tr>
<tr>
<td>Contributions</td>
<td>19,217</td>
<td>16,661</td>
</tr>
<tr>
<td>Total revenue and support</td>
<td>2,639,157</td>
<td>1,671,555</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td>2,092,408</td>
<td>1,433,164</td>
</tr>
<tr>
<td>Management and general</td>
<td>79,106</td>
<td>102,058</td>
</tr>
<tr>
<td>Fundraising</td>
<td>39,866</td>
<td>33,914</td>
</tr>
<tr>
<td>Total expenses</td>
<td>2,211,380</td>
<td>1,569,136</td>
</tr>
<tr>
<td>Increase in unrestricted net assets</td>
<td>427,777</td>
<td>102,419</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporarily restricted contributions</td>
<td>395,380</td>
<td>-</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>(229,298)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Increase (decrease) in temporarily restricted net assets</td>
<td>166,082</td>
<td>(50,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>INCREASE IN NET ASSETS</strong></td>
<td>593,859</td>
<td>52,419</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET ASSETS – Beginning of year</strong></td>
<td>544,669</td>
<td>492,250</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET ASSETS – End of year</strong></td>
<td>$1,138,528</td>
<td>$544,669</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
HAWAII PUBLIC HEALTH INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017
(With Prior Year Comparative Information)

<table>
<thead>
<tr>
<th>Management</th>
<th>Program Services</th>
<th>General</th>
<th>Raising</th>
<th>Total 2017</th>
<th>Total 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leased employees</td>
<td>$ 877,472</td>
<td>$30,673</td>
<td>$ 9,552</td>
<td>$ 917,697</td>
<td>$ 660,406</td>
</tr>
<tr>
<td>Professional and contract services</td>
<td>751,360</td>
<td>24,671</td>
<td>24,871</td>
<td>800,902</td>
<td>614,245</td>
</tr>
<tr>
<td>Training</td>
<td>129,951</td>
<td>2,031</td>
<td>1,265</td>
<td>133,247</td>
<td>18,387</td>
</tr>
<tr>
<td>Travel and transportation</td>
<td>123,632</td>
<td>5,224</td>
<td>1,163</td>
<td>130,019</td>
<td>85,609</td>
</tr>
<tr>
<td>Occupancy</td>
<td>63,874</td>
<td>3,307</td>
<td>1,029</td>
<td>68,210</td>
<td>59,193</td>
</tr>
<tr>
<td>Printing and copying</td>
<td>30,265</td>
<td>690</td>
<td>462</td>
<td>31,417</td>
<td>44,298</td>
</tr>
<tr>
<td>Office</td>
<td>29,013</td>
<td>751</td>
<td>550</td>
<td>30,314</td>
<td>13,795</td>
</tr>
<tr>
<td>Meetings</td>
<td>18,646</td>
<td>2,104</td>
<td>183</td>
<td>20,933</td>
<td>13,597</td>
</tr>
<tr>
<td>Telecommunication services</td>
<td>19,853</td>
<td>802</td>
<td>231</td>
<td>20,886</td>
<td>17,316</td>
</tr>
<tr>
<td>Supplies</td>
<td>16,396</td>
<td>11</td>
<td>4</td>
<td>16,411</td>
<td>6,185</td>
</tr>
<tr>
<td>Staff development</td>
<td>9,962</td>
<td>119</td>
<td>63</td>
<td>10,144</td>
<td>11,104</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>7,465</td>
<td>-</td>
<td>7,465</td>
<td>1,966</td>
</tr>
<tr>
<td>Insurance</td>
<td>2,296</td>
<td>111</td>
<td>39</td>
<td>2,446</td>
<td>2,445</td>
</tr>
<tr>
<td>Other expenses</td>
<td>19,688</td>
<td>1,147</td>
<td>454</td>
<td>21,289</td>
<td>20,590</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$2,092,408</td>
<td>$79,106</td>
<td>$39,866</td>
<td>$2,211,380</td>
<td>$1,569,136</td>
</tr>
</tbody>
</table>

See accompanying notes to the financial statements.
HAWAII PUBLIC HEALTH INSTITUTE

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017
(With Prior Year Comparative Information)

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets $593,859 $52,419

Adjustments to reconcile increase in net assets to
net cash provided by operating activities:
Depreciation 7,465 1,966
(Increase) decrease in:
Accounts receivable – net 22,832 (223,236)
Contribution receivable - 50,000
Prepaid expenses 5,266 895
Increase (decrease) in:
Accounts payable (83,591) 99,711
Accrued liabilities (1,742) (1,507)
Refundable advances 66,173 118,876
Net cash provided by operating activities 610,262 99,124

CASH FLOWS FROM INVESTING ACTIVITIES

Additions to property and equipment (16,572) (8,569)
Increase in security deposits (100) (50)
Net cash used by investing activities (16,672) (8,619)

NET INCREASE IN CASH

593,590 90,505

CASH – Beginning of year 338,041 247,536

CASH – End of year $931,631 $338,041

See accompanying notes to the financial statements.
NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Institute and Activity

Hawaii Public Health Institute (Institute) is a nonprofit corporation organized in the State of Hawaii in October 2006 as the Coalition for a Tobacco-Free Hawaii. The name of the Institute was changed in 2013. The mission of the Institute is to build healthier communities in Hawaii by providing issue-based advocacy and education, technical assistance, and other capacity building services through partnerships with government, academia, foundations, businesses and community-based organizations. The Institute receives the majority of its revenue and support from the Tobacco Prevention and Control Trust Fund and government contracts.

Basis of Accounting

The Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets (none in 2016), and permanently restricted net assets (none in 2017 and 2016). Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Revenue from government grants and contracts is recognized to the extent of expenditures made in accordance with the related agreements (including expenditures for property and equipment, which may be capitalized and depreciated for financial reporting purposes). Funds that are received before expenditures are incurred are recognized as refundable advances. Expenses, including advertising expenses of approximately $11,400 and $7,200 for the years ended December 31, 2017 and 2016, respectively, are recorded when the related liability is incurred.

The Institute allocates its expenses on a functional basis among its various programs and supporting services based on estimates of management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Institute. During the years ended December 31, 2017 and 2016, the Institute recorded $6,415 and $7,395 in donated services, respectively. The value of this time is reflected in the statements of activities under contributions and in the statements of functional expenses under professional services.
HAWAII PUBLIC HEALTH INSTITUTE

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Institute to credit risk include cash and accounts receivable. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately $879,900 at December 31, 2017. Cash on deposit was fully insured at December 31, 2016. The Institute had unsecured accounts receivable due primarily from the State of Hawaii and a trust fund, which have been reduced by estimated allowances for doubtful accounts (none as of December 31, 2017 and 2016). Accounts receivable are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual receivable amounts.

Funds Held in Trust

Funds held in trust are monies collected and disbursed on behalf of others under arrangements whereby the Institution does not have unilateral power to redirect the use of the funds. A liability is recorded in the accompanying financial statements for these funds held in trust and is maintained until the monies are disbursed.

Property and Equipment

Property and equipment is stated at cost or, if contributed, at estimated fair market value at the date of contribution, less depreciation provided using the straight-line method over estimated useful lives of five to seven years for furniture and equipment. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Major expenditures for property and equipment in excess of $1,000 are capitalized. Repairs and maintenance are expensed as incurred.
NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on the gross receipts of the Institute from certain activities such as special events within Hawaii, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. For the years ended December 31, 2017 and 2016, there were no gross receipts subject to the general excise tax.

Income Taxes

The Institute is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code on exempt purpose income and is not a private foundation. Accordingly, qualifying contributions to the Institute are tax deductible.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Institute’s tax positions as of December 31, 2017 and 2016 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that it had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Institute is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. The law includes significant changes to the United States of America corporate income tax system, including a federal corporate rate reduction from 35% to 21% and limitations on the deductibility of certain expenses. Accounting principles generally accepted in the United States of America require the effect of a change in tax law to be recognized when enacted. The new tax law is not expected to have a financial impact on the Institute as it is not subject to federal income tax.

NOTE B – LINE-OF-CREDIT

In February 2016, the Institute obtained a $50,000 revolving line-of-credit with a bank that is available through October 2018. The revolving line-of-credit bears interest at 2.00% above the bank’s base rate, which was 4.50% at December 31, 2017 and 2016. As of December 31, 2017, there were no advances outstanding on the line-of-credit. The line-of-credit agreement includes covenants that limit the ability of the Institute to incur certain obligations, requires it to make periodic reports to the bank, and require the Institute to maintain a universal debt service coverage ratio of not less than 1.10 to 1.00.
NOTE C – LEASE COMMITMENTS

The Institute leases office space and equipment under operating leases expiring at various dates through September 2019. Lease rent expense for the years ended December 31, 2017 and 2016 amounted to $27,967 and $27,329, respectively.

At December 31, 2017, minimum future lease payments approximated the following:

<table>
<thead>
<tr>
<th>Years Ending December 31st:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$28,700</td>
</tr>
<tr>
<td>2019</td>
<td>$20,700</td>
</tr>
</tbody>
</table>

NOTE D – 401(k) RETIREMENT PLAN

The Institute offers a 401(k) retirement plan through its employee leasing company that covers all leased employees who have met certain eligibility requirements. The Institute may make discretionary matching contributions to the plan. The Institute contributed $6,224 and $4,708 for the years ended December 31, 2017 and 2016, respectively.

NOTE E – COMMITMENTS AND CONTINGENCIES

Amounts received for grants and contracts may be subject to audit and adjustment by various government agencies. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to be immaterial to the financial statements. The Institute received approximately 76% of its support and revenues from various governmental agencies during the year. The loss of revenue and support derived from grants and contracts would have an adverse effect on the Institute.

The Institute is subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve these matters, if any, will not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

The Institute operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii and the areas where research is conducted. The effects, if any, on the financial statements of the Institute from such changes in economic conditions are not presently determinable.
HAWAII PUBLIC HEALTH INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the Year Ended December 31, 2017
(With Prior Year Comparative Information)

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017 and 2016, temporarily restricted net assets consisted of the following:

<table>
<thead>
<tr>
<th>Temporarily restricted for</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth Tobacco Prevention</td>
<td>$135,181</td>
<td>$ -</td>
</tr>
<tr>
<td>Farm to School</td>
<td>17,901</td>
<td>-</td>
</tr>
<tr>
<td>Other purposes</td>
<td>13,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total temporarily restricted net assets</strong></td>
<td><strong>$166,082</strong></td>
<td><strong>$ -</strong></td>
</tr>
</tbody>
</table>

NOTE G – FINANCIAL STATEMENT PRESENTATION

The financial statements include prior year comparative information which is not in sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute’s financial statements as of and for the year ended December 31, 2016, from which the information was derived.

NOTE H – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 27, 2018, which is the date the financial statements were available to be issued and determined that the Institute did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.
HAWAII PUBLIC HEALTH INSTITUTE

REPORTS REQUIRED BY
GAO GOVERNMENT AUDITING STANDARDS

For the Year Ended December 31, 2017
Hawaii Public Health Institute:

We have audited, 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, the financial statements of Hawaii Public Health Institute (Institute), a nonprofit Hawaii corporation, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018.

Internal Control over Financial Reporting

The management of the Institute is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Institute’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute’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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

As part of obtaining reasonable assurance about whether the Institute’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Institute’s Response to Findings

The Institute’s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Institute’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Honolulu, Hawaii
September 27, 2018
HAWAII PUBLIC HEALTH INSTITUTE

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

For the Year Ended December 31, 2017
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Hawaii Public Health Institute:

Report on Compliance for Each Major Federal Program

We have audited the compliance of Hawaii Public Health Institute (Institute), a nonprofit Hawaii corporation, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2017. The Institute’s major federal program is identified in the summary of the auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Institute’s compliance.
Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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 Findings 2017-001, 2017-002 and 2017-003. Our opinion on the major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance

We have audited the financial statements of the Institute as of and for the year ended December 31, 2017, and have issued our report thereon dated September 27, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Honolulu, Hawaii
September 27, 2018
## HAWAII PUBLIC HEALTH INSTITUTE

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**For the Year Ended December 31, 2017**

<table>
<thead>
<tr>
<th>Program Title</th>
<th>Federal CFDA Number</th>
<th>Agency or Pass-through Number</th>
<th>Federal Expenditures</th>
<th>Amount Provided to Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passed through State of Hawaii, Department of Health</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National State Based Tobacco Control Programs</td>
<td>93.305</td>
<td></td>
<td>$ 199,904</td>
<td>$</td>
</tr>
<tr>
<td>State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke (PHF)</td>
<td>93.757</td>
<td>* Modifications No. 1 - 3</td>
<td>843,880</td>
<td></td>
</tr>
<tr>
<td>Total passed through State of Hawaii, Department of Health</td>
<td></td>
<td></td>
<td>1,043,784</td>
<td></td>
</tr>
<tr>
<td>Total U.S. Department of Health and Human Services</td>
<td></td>
<td></td>
<td>1,043,784</td>
<td></td>
</tr>
<tr>
<td>Total Expenditures of Federal Awards</td>
<td></td>
<td></td>
<td>$ 1,043,784</td>
<td>$</td>
</tr>
</tbody>
</table>

See accompanying notes to the Schedule of Expenditures of Federal Awards
NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Hawaii Public Health Institute (Institute) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, certain amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

(*) Denotes major program, comprising 81% of total expenditures of federal awards.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The expenditures are recognized following the cost principles contained in the Uniform Guidance, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. In addition, agency or pass-through numbers are presented where available.

NOTE C – INDIRECT COST RATES

The Institute has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
HAWAII PUBLIC HEALTH INSTITUTE

FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2017
SUMMARY OF AUDIT RESULTS

The auditor expressed an unmodified opinion on the financial statements of Hawaii Public Health Institute (Institute).

No deficiencies or combinations of deficiencies material to the Institute’s internal control over financial reporting were reported by the auditor.

No instances of noncompliance material to the Institute’s financial statements were reported by the auditor.

The auditor expressed an unmodified opinion on compliance for the major federal award program.

No deficiencies or combinations of deficiencies material to the Institute’s internal control over compliance were reported by the auditor.

However, findings related to the Institute’s major federal award program were reported by the auditor in Findings 2017-001, 2017-002, and 2017-003.

The major program tested State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke (CFDA #93.757), comprising 81% of total expenditures of federal awards of the auditee.

The threshold for distinguishing Types A and B programs was $750,000.

The Institute was not eligible for consideration as a low-risk auditee because of instances of material noncompliance in the prior year.

FINANCIAL STATEMENTS AUDIT

In the current year, no deficiencies or combinations of deficiencies material to the internal control of the Institute over financial reporting and no instances of noncompliance material to the financial statements of the Institute were reported by the auditor.

(Continued)
MAJOR FEDERAL AWARD PROGRAM AUDIT

In the current year, the auditor expressed an unmodified opinion on compliance for the major federal award program of the Institute. The following instances of noncompliance disclosed by auditing procedures, which are required to be reported in accordance with the Uniform Guidance, are described below in Findings 2017-001, 2017-002, and 2017-003.

Finding 2017-001

*Repeat Finding* – This is a repeat of prior audit Findings 2016-001 and 2016-002.

U.S. Department of Health and Human Services, passed through the State of Hawaii, Department of Health

**CFDA 93.757**

**Criteria** – 2 CFR 200.430(i)(vii) states that budget estimates alone do not qualify as support for charges to federal awards, but may be used if: 1) The system for establishing the estimates produces reasonable approximations of the activity actually performed; 2) Significant changes in the corresponding work activity (as defined by the non-federal entity’s written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuations between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and 3) The non-federal entity’s system of internal controls includes processes to review after-the-fact interim charges made to a federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the federal award is accurate, allowable, and properly allocated.

**Condition** – The allocation of time for employees that work on more than one activity was based on budgeted percentages. Employees are required to submit timesheets based on actual hours worked for each program. Hours allocated to the federal program were not compared to actual time worked per the timesheet to determine if the amounts charged to the federal program were accurate, allowable, and properly allocated. Adjustments to amounts charged to the federal program for actual hours worked by employees were not made.

**Questioned Costs** – None

**Context** – Of the $843,880 in expenditures for the federal program, $257,931 was for payroll related expenditures for individuals who worked on various projects for the Institute. Based on the timesheets submitted by employees, the Institute charged approximately $2,000 less in payroll costs during the year to the federal program, than actual payroll costs incurred.

**Effect or Potential Effect** – The Institute does not meet the requirements above related to salaries and wages charged to this federal program for the year ended December 31, 2017, as the budget percentages were not adjusted to reflect the actual hours worked. The Institute required the use of timesheets during the year; however, the budgeted amounts submitted were not adjusted to actual time work.
MAJOR FEDERAL AWARD PROGRAM AUDIT (Continued)

Finding 2017-001 (Continued)

Cause – The Institute did not adjust the amounts submitted for reimbursement for the federal program based on the actual time worked per the timesheets.

Recommendation – The Institute should true-up the budgeted amounts submitted during the year to the actual allocation of each employee’s hours based on their timesheet to reflect activities performed by the employee.

Management Response – Management will reconcile the actual time spent on a program by employees per their timesheets to the time charged to the program.

Finding 2017-002

Repeat Finding – This is a repeat of prior audit Finding 2016-002.

U.S. Department of Health and Human Services, passed through the State of Hawaii, Department of Health

Criteria – Refer to Finding 2017-001

Condition – Refer to Finding 2017-001

Questioned Costs – Unknown.

Context – Of the $199,904 in expenditures for the federal program, $128,586 was for payroll related expenditures for individuals who worked on various projects for the Institute. Based on the timesheets submitted by employees, the Institute submitted approximately $8,700 less in expenses during the year.

Effect or Potential Effect – Refer to Finding 2017-001.

Cause – Refer to Finding 2017-001

Recommendation – Refer to Finding 2017-001

Management Response – Refer to Finding 2017-001
MAJOR FEDERAL AWARD PROGRAM AUDIT (Continued)

Finding 2017-003

Repeat Finding – This is a repeat of prior audit Finding 2016-003.

U.S. Department of Health and Human Services, passed through the State of Hawaii, Department of Health

Criteria – Non-Federal entities are prohibited from hiring, contracting with, or making subawards under covered transaction to parties that are suspended or debarred. When a non-federal entity enters into a covered transaction with an entity or individual, the non-federal entity must verify that the entity or individual, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction.

Condition – Prior to August 2017, prior to entering into transactions with an entity or individual, the Institute did not verify that the entity or individual was not suspended or debarred or otherwise excluded from participating in the transactions.

Questioned Costs – Unknown

Effect or Potential Effect – Prior to August 2017, the Institute may have used funds to hire or purchase services or supplies from suspended or debarred individuals or entities.

Cause – Prior to August 2017, the process to setup new vendors or new employees did not include procedures to verify whether vendors and employees were not suspended or debarred.

Recommendations – The Institute should update the vendor management process to include verification that new vendors and employees are not suspended or debarred. The process should include the maintenance of supporting documentation related to the conclusion that vendors or individuals are not suspended or debarred. The process should also include a periodic check for existing vendors and employees to verify that vendors and employees have not been subsequently suspended or debarred.

Management Response – In August 2017, management implemented changes to the Institute’s processes and procedures to include validation that the entity or individual is not suspended or debarred.
HAWAII PUBLIC HEALTH INSTITUTE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2017

FINDINGS – FINANCIAL STATEMENTS AUDIT

In the prior year, no deficiencies or combinations of deficiencies material to internal control over financial reporting for Hawaii Public Health Institute (Institute) and no instances of noncompliance material to the Institute’s financial statements were reported by the auditor.

PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

Finding 2016-001

U.S. Department of Health and Human Services, passed through the State of Hawaii, Department of Health

State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF) CFDA 93.757

Criteria – The distribution of salaries and wages to federal awards and other activities must be based on after-the-fact determinations of the actual activity of each employee. The reports must be prepared at least monthly and must coincide with one or more pay periods.

Condition – The distribution of time for employees that work on more than one activity was based on allocation percentages. The percentages were not updated at least monthly to reflect any changes in the work of the employees.

Current year status – Refer to Finding 2017-001

Finding 2016-002

U.S. Department of Health and Human Services, passed through the State of Hawaii, Department of Health

National State Based Tobacco Control Programs CFDA 93.305

Criteria – Refer to Finding 2016-001

Condition – Refer to Finding 2016-001

Current year status – Refer to Finding 2017-002
PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT
(Continued)

Finding 2016-003

U.S. Department of Health and Human Services, passed through the State of Hawaii, Department of Health

State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF) CFDA 93.757

**Criteria** – Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction.

**Condition** – Prior to entering into transactions with vendors, the Institute did not verify that the entity was not suspended or debarred or otherwise excluded from participating in the transaction.

**Current year status** – Refer to Finding 2017-003
HAWAII PUBLIC HEALTH INSTITUTE
CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2017
CORRECTIVE ACTION PLAN

In December 2016, the institute implemented a system and procedures for a detailed staff time tracking portal to capture the specific staff time spent by program area. This information is collected and used for monthly payroll allocations. Management will monitor this issue regularly during the year to ensure payroll allocations are trued up on a monthly basis to ensure compliance.

In August 2017, the Institute also updated and implemented the vendor verification procedures and notified appropriate staff to ensure the organization is only paying vendors that are in good standing and not suspended or debarred.

Jessica Yamauchi, Executive Director

Date

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