STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
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State Auditor

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DEPT. COMM. NO. 380

January 15, 2020

VIA EMAIL & HAND DELIVERY

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

VIA EMAIL & HAND DELIVERY

The Honorable Scott K. Saiki
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's Water Pollution Control Revolving Fund

Dear President Kouchi and Speaker Saiki:

The financial and compliance audit of the Department of Health's Water Pollution Control Revolving Fund for the fiscal year ended June 30, 2019, was issued on November 27, 2019. The Office of the Auditor retained KMH LLP to perform the financial and compliance audit. For your information, we are attaching a copy of the two-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:

http://files.hawaii.gov/auditor/Reports/2019_Audit/DOH_WPCRF_2019.pdf; and

http://files.hawaii.gov/auditor/Reports/2019_Audit/DOH_WPCRF_Summary_2019.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo
Enclosures
ec/attach (Auditor's Summary only): Senators
Representatives
Brian Takeshita, House Chief Clerk
Carol Taniguchi, Senate Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Health, Water Pollution Control Revolving Fund

Financial Statements, Fiscal Year Ended June 30, 2019

PHOTO: ISTOCK.COM

About the Fund

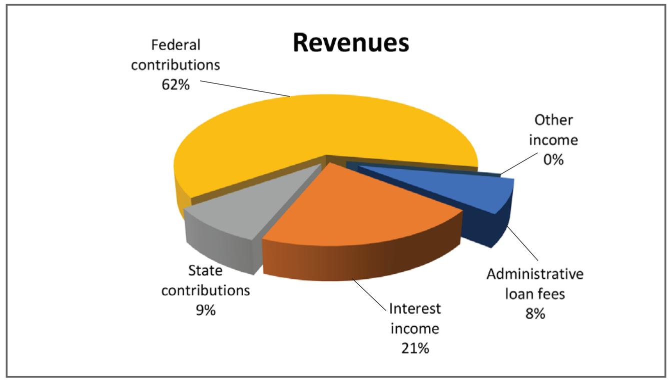
In accordance with the Clean Water Act of 1987 (the Act), the U.S. Environmental Protection Agency's (EPA) direct grants for the construction of wastewater treatment works ended in 1990. The Act provides for the creation of a State Revolving Fund (SRF) loan program to be capitalized in part by federal funds. The Act authorizes states to make loans for construction of publicly owned wastewater treatment works, for implementation of a non-point source pollution control management program, and for implementation of an estuary conservation and management program. Under the Act, from 1989 to 1994, the State of Hawai'i received more than $72 million in SRF capitalization grants. The Act expired on September 30, 1995; however, the State continues to receive SRF capitalization grants annually from the EPA and, to date, has been awarded over $317 million.

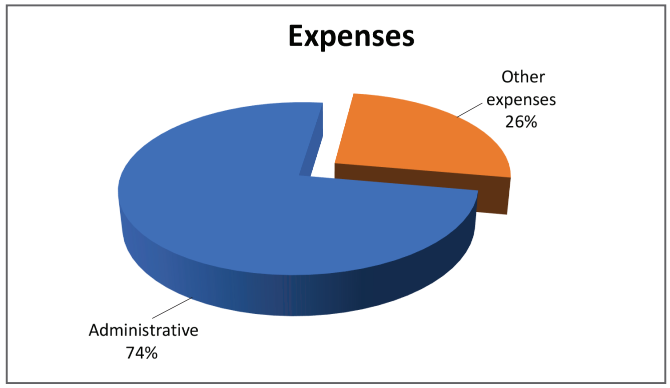
In 1988, the Hawai'i State Legislature established the State Water Pollution Control Revolving Fund (Revolving Fund) to initiate the federal loan program. The purpose of the Revolving Fund is to provide loans in perpetuity to county and State agencies for the construction of wastewater treatment facilities and for non-point source projects. The Revolving Fund is administered by the State of Hawai'i Department of Health's Environmental Management Division, Wastewater Branch.

***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, Water Pollution Control Revolving Fund, as of and for the fiscal year ended June 30, 2019, and to comply 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), which set forth audit requirements for state and local governmental units that receive federal awards and the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs (Program). The audit was conducted by KMH LLP.*

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2019, the Revolving Fund reported total revenues of $22.8 million and total operating expenses of $4 million, resulting in an increase in net position of $18.8 million. Total revenues consisted of administrative loan fees of $1.7 million, interest income of $4.7 million, State contributions of $2.1 million, and Federal contributions of $14.2 million. Total expenses of $4 million consisted of administrative expenses of $3 million and other expenses of $1 million.





As of June 30, 2019, total assets and deferred outflows of resources were $544.5 million and total liabilities and deferred inflows of resources were $8 million. Total assets were comprised of cash and cash equivalents of $177.8 million, loans receivable of $360.8 million, and other assets and deferred outflows of resources of $5.9 million.

Auditors' Opinions

THE REVOLVING FUND RECEIVED AN UNMODIFIED OPINION that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. The Revolving Fund also received an unqualified opinion on its compliance with federal statutes, regulations, and terms and conditions of federal awards that apply to the Program.

Findings

THERE WERE NO REPORTED DEFICIENCIES in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance with the Program.

For the complete report and financial statements visit our website at:

http://files.hawaii.gov/auditor/Reports/2019_Audit/DOH_WPCRF_2019.pdf

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Financial Statements
June 30, 2019
Together with Independent Auditor's Report

Submitted by

THE AUDITOR
STATE OF HAWAII

Table of Contents

PART I

FINANCIAL SECTION

Independent Auditor's Report

To the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Hawaii, Water Pollution Control Revolving Fund (WPCRF) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the WPCRF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

1003 Bishop Street ■ Suite 2400 ■ Honolulu, HI 96813 ■ Telephone: 808-526-2255 ■ Fax: 808-536-5817 ■ www.kmhllp.com

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the WPCRF, as of June 30, 2019, and the changes in financial position and, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note B, the financial statements of WPCRF, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and proprietary fund type activities of the State of Hawaii and the State of Hawaii, Department of Health that are attributable to the transactions of WPCRF. They do not purport to, and do not, present fairly the respective financial position of the State of Hawaii and the State of Hawaii, Department of Health as of June 30, 2019, and the respective changes in its financial position, or its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions and the schedule of funding progress that accounting principles generally accepted in the United States of America require to be presented to supplement basic financial statements.

Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the WPCRF's basic financial statements. The supplementary information on pages 39 to 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019 on our consideration of the WPCRF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the WPCRF'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 WPCRF's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 27, 2019

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Statement of Net Position
June 30, 2019

Assets and Deferred Outflows of Resources

Current Assets:	
Equity in cash and cash equivalents and investments in State Treasury	$ 177,832,554
Loan fees receivable	395,573
Accrued interest on loans	314,153
Due from State Treasury	3,395,230
Current maturities of loans receivable	30,912,954
Total current assets	212,850,464
Loans Receivable, net of current maturities	329,882,524
Capital Assets, net of accumulated depreciation	583,873
Total assets	543,316,861
Deferred Outflows of Resources	1,246,243
Total assets and deferred outflows of resources	$ 544,563,104

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilites--	
Accounts Payable and Other Accrued Liabilities	$ 219,710
Accrued Vacation, net of current portion	150,537
Net Pension Liability	3,806,866
Net Other Postemployment Benefits Liability	3,736,978
Total liabilities	7,914,091
Deferred Inflows of Resources	111,274
Net Position:	
Net investment in capital assets	583,873
Restricted - expendable	535,953,866
Total net position	536,537,739
Total liabilities, deferred inflows of resources, and net position	$ 544,563,104

See accompanying notes to the financial statements.

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

Operating Revenues:	
Interest income from loans	$ 1,197,517
Administrative loan fees	1,746,828
Total operating revenue	2,944,345
Operating Expense:	
Administrative	2,967,384
Principal forgiveness	1,026,800
Total operating expenses	3,994,184
Operating loss	(1,049,839)
Nonoperating Revenues:	
State contributions	2,054,000
Federal contributions	14,228,752
Other interest income	3,551,154
Other income	6,021
Total nonoperating revenues	19,839,927
Change in net position	18,790,088
Net Position:	
Beginning of fiscal year	517,747,651
End of fiscal year	$ 536,537,739

See accompanying notes to the financial statements.

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Statement of Cash Flows
For the Year Ended June 30, 2019

Cash Flows from Operating Activities:	
Payments to employees	$ (2,032,670)
Payments to vendors	(149,483)
Net cash used in operating activities	(2,182,153)
Cash Flows from Noncapital Financing Activity:	
State contributions	2,054,000
Federal contributions	12,979,853
Net cash provided by noncapital financing activities	15,033,853
Cash Flows from Capital and Related Financing Activities --	
Purchase of Equipment	(16,007)
Cash Flows from Investing Activities:	
Principal repayments on loans	31,188,915
Disbursement of loan proceeds	(40,785,536)
Interest income from loans	1,209,209
Administrative loan fees	1,705,176
Other interest income	1,285,596
Net cash used in investing activities	(5,396,640)
Net increase in cash	7,439,053
Equity in Cash and Cash Equivalents and Investments in State Treasury:	
Beginning of fiscal year	170,393,501
End of fiscal year	$ 177,832,554

See accompanying notes to the financial statements.

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Statement of Cash Flows (continued)
For the Year Ended June 30, 2019

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	$ (1,049,839)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	89,745
Principal forgiveness	1,026,800
Interest income from loans	(1,197,517)
Administrative loan fees	(1,746,828)
In-kind contribution from Environmental Protection Agency	600,000
Non-imposed fringe benefits	6,021
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Due from State Treasury	3,830
Accounts payable and other accrued liabilities	(40,037)
Net deferred outflows/inflows of resources related to pensions	45,947
Net pension liability	49,216
Other postemployment benefits	30,509
Net cash used in operating activities	$ (2,182,153)

Supplemental Disclosure of Non-cash Capital and Related Financing Activities:

The Fund received approximately $649,000 for the year ended June 30, 2019, in contributions of capital assets from governmental agencies, which are recorded as federal contributions at estimated fair value.

See accompanying notes to the financial statements.

NOTE A - ESTABLISHMENT AND PURPOSE OF THE FUND

In accordance with the Clean Water Act of 1987 (the Act), the U.S. Environmental Protection Agency's (EPA) direct grants for the construction of wastewater treatment works ended in 1990. The Act provides for the creation of a State Revolving Fund (SRF) loan program to be capitalized in part by federal funds. The Act authorizes states to make loans for construction of publicly owned wastewater treatment works, for implementation of a non-point source pollution control management program and for implementation of an estuary conservation and management program. The SRF serves as the major federal funding source for future wastewater construction projects. Under the Act, from 1989 to 1994, the State of Hawaii (State) received more than $72 million in SRF capitalization grants. The Act expired on September 30, 1995, however the state continues to receive SRF capitalization grants annually from the U.S. EPA and to date, has been awarded over $317 million.

In 1988, the Hawaii State Legislature established the State Water Pollution Control Revolving Fund (WPCRF or Fund) to initiate the federal loan program. The purpose of the WPCRF is to provide loans in perpetuity to county and state agencies for the construction of wastewater treatment facilities and for non-point source projects. Such loans may be at or below market interest rates and be fully amortized for a period not to exceed twenty years. Prior to July 1, 2015, the first repayment of principal and interest occurs no later than one year after the notice to proceed for construction or the final agreement date, whichever is later. Beginning July 1, 2015, the first repayment of principal and interest occurs no later than one year after the final loan disbursement, one year after the project completion date or three years after the final agreement date, whichever is earliest. The Fund is administered by the Wastewater Branch, Environmental Management Division of the Department of Health (DOH), State of Hawaii.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. Financial Statement Presentation

The accompanying financial statements are intended to present the financial position, results of operations and cash flows of only that portion of the State and DOH that is attributable to the transactions of WPCRF and do not purport to present the financial position, results of operation or cash flows of the State or DOH.

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operation. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the WPCRF are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds, and interest income from investments are reported as non-operating revenue. Principal forgiveness for loans is reported as operating expenses.

3. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates, among others, include the allowance for uncollectible accounts, depreciable lives of capital assets, and the pensions and other postemployment benefits (OPEB) liability.

4. Equity in Cash and Cash Equivalents and Investments in State Treasury

All monies of the WPCRF are held in the 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.

Effective August 1, 1999, cash was pooled with funds from other state agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool System. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account. At June 30, 2019, information relating to the

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

types, insurance, collateral, and related interest rate, credit and custodial risks of funds deposited with the State Treasury was not available since such information is determined on a statewide basis and not for individual departments. The State requires that the depository banks pledge, as collateral, government securities held in the name of the state for deposits not covered by federal deposit insurance.

5. 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 Fund. Interest is calculated from the date that loan funds are disbursed, and 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. The capitalization grants for federal fiscal years 2010 through 2018 allow for portions of loans to be forgiven upon satisfaction of certain requirements.

6. Administrative Loan Fees

The administrative loan fee program pays for the Fund's administration, including employee salaries and benefits. The program applies an administrative loan fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.

7. Capital Assets

Management capitalizes an asset if the cost is in excess of $5,000 and the useful life exceeds one year. Purchased capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Depreciation expense is recorded in the financial statements. The straight-line method is utilized over the asset's estimated useful life. Generally, the useful life is three to seven years.

8. Accrued Vacation

Employees earn vacation leave at a rate of 14 hours for each month of service. Vacation leave can be accumulated up to a maximum of 720 hours at the end of the calendar year and is convertible to pay upon termination of service.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Included in accrued vacation is compensatory time off (CTO). Employees may elect to take CTO in lieu of cash payment for overtime worked. CTO can be accumulated up to 240 hours.

9. Accumulated Sick Leave

Sick leave accumulates at a rate of 14 hours for each month of service without limit, but may be taken only in the event of an illness and is not convertible to pay upon termination of employment. However, an employee who leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System (ERS). At June 30, 2019, accumulated sick leave was approximately $756,000.

10. Net Position

Net position are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally, it is management's policy to use restricted resources first, then unrestricted resources as they are needed.

WPCRF's net position is classified into two net position categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted-expendable consists of restricted assets less liabilities whose use by WPCRF are subject to externally-imposed stipulations that can be fulfilled by actions of WPCRF pursuant to those stipulations or that expire by the passage of time.

11. Administration Costs

The accompanying financial statements do not reflect certain administrative costs incurred which are paid for by other sources of funding from DOH. These costs include the DOH and State's overhead costs which DOH does not assess to WPCRF, since they are not practical to determine.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Fund Accounts

The WPCRF consists of the SRF and State activity. The SRF consists of the state match, federal capitalization grant loans, federal set-aside funds, Water Resources Reform and Development Act (WRRDA) administrative funds, principal loan repayments, and interest from loans and investments. The State activity consists of administration loan fees and state loan funds.

13. Expenses

The statement of revenues, expenses and changes in net position presents expenses on a functional basis. The natural classifications of expenses are presented in the supplementary schedule of operating expenses.

14. Deferred Outflows of Resources and Deferred 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, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	$ 918,383	$ (50,312)
Related to Other Postemployment Benefits	327,860	(60,962)
	$ 1,246,243	$ (111,274)

15. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

(including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

16. Other Post-employment Benefits (OPEB)

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

17. Indirect Cost

The State charges the WPCRF federal grants an indirect cost on direct salaries and wages primarily related to interest income, including all fringe benefits. It is determined based on a negotiated rate.

18. Due from State Treasury

Due from State Treasury includes amounts due from other State departments and agencies, which were not received at the end of the fiscal year.

NOTE C - LOANS RECEIVABLE

At June 30, 2019, the WPCRF had loans receivable from the following government entities:

Fourteen loans with the City & County of Honolulu; due in semiannual payments, including interest ranging from 0.00% to 2.96%, commencing not later than one year after project completion, notice to proceed, final loan disbursement or three years after loan agreement date. Final payment is due not later than twenty years after project completion date.	$ 210,947,199
Nine loans with the County of Hawaii; due in semiannual payments, including interest ranging from 0.25% to 0.50%, 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 date.	39,693,594
Twenty-nine loans with the County of Maui; due in semiannual payments, including interest ranging from 0.25% to 0.50%, 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 date	87,516,790
Eleven loans with the County of Kauai; due in semiannual payments, including interest ranging from 0.25% 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 date.	22,637,895
	360,795,478
Less: current maturities	(30,912,954)
	$ 329,882,524

NOTE C - LOANS RECEIVABLE (continued)

Loans are expected to mature at various dates through 2040. The scheduled principal payments on loans maturing in subsequent years are as follows:

Fiscal Years,	Amount
2020	$ 30,912,954
2021	31,822,571
2022	31,789,910
2023	31,075,727
2024	31,114,286
2025-2029	128,157,676
2030-2034	58,550,083
2035-2039	17,104,126
2040	268,145
	$ 360,795,478

Management believes that all loans will be repaid according to the loan terms or portions will be forgiven upon satisfaction of certain requirements; accordingly, no provision for uncollectible amounts has been recorded.

In fiscal year 2019, $1,026,800 in loans were forgiven. Loans and advances forgiven are performed in accordance with the required conditions.

As of June 30, 2019, the WPCRF were earmarked to be loaned under existing commitments to the following counties:

City & County of Honolulu		$ 12,333,482
County of Hawaii		41,153,335
County of Maui		10,760,684
County of Kauai		8,600,000
	Total	$ 72,847,501

NOTE D – CONTRIBUTED CAPITAL

The WPCRF is capitalized by grants from EPA and matching funds from the State. The following summarizes the EPA capitalization grants, amounts drawn on each grant, and the balances available for future loans at June 30, 2019:

Budget Period	Amount	Total Draws at June 30, 2018	EPA Draws	Total 2019 Cash Draws	Funds Available
10/1/16-6/30/20	$ 10,348,000	$ 10,348,000	$ -	$ -	$ -
10/1/17-6/30/21	10,268,000	850,000	-	9,418,000	-
10/1/18-9/30/23	12,431,000	-	-	3,561,853	8,869,147
	$ 33,047,000	$ 11,198,000	$ -	$ 12,979,853	$ 8,869,147

The State is required to match 20 percent of the estimated amount of the grant from the EPA and does so in the year that the capitalization grant is awarded. Through June 30, 2019, the Fund was in compliance with the 20 percent State matching requirement. The required State match through June 30, 2019 approximated $63.4 million, of which the entire amount has been utilized.

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

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	Balance at July 1, 2018	Additions	Retirements / Disposals	Balance at June 30, 2019
Equipment	$ 60,964	$ 16,007	$ -	$ 76,971
Intangible Assets - Software	-	648,899	-	648,899
Accumulated Depreciation	(52,252)	(89,745)	-	(141,997)
	$ 8,712	$ 575,161	$ -	$ 583,873

NOTE F – ACCRUED VACATION

The changes to the accrued vacation liability during 2019 were as follows:

Balance at July 1, 2018	$	264,825
Increase		60,380
Decrease		(98,024)
Balance at June 30, 2019		227,181
Less: Current portion		(76,644)
Noncurrent portion	$	150,537

NOTE G - EMPLOYEE BENEFIT PLANS

1. Employees' Retirement System

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 Hawaii Revised Statutes (HRS) Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS' website: http://www.ers.ehawaii.gov.

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% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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

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

Noncontributory Class

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

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

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

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

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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

- 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 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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 any age, 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 is required for ordinary disability. Ordinary disability benefits are 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid 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 is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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 2019 were 31% for police and firefighters and 19% for all other employees. Contributions to the pension plan from the Fund were $229,948 for the fiscal year ended June 30, 2019.

Per Act 17 (SLH 2017), employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for all employees, except for police officers and firefighters, increased to 19% on July 1, 2018; and increases to 22% on July 1, 2019; and 24% on July 1, 2020.

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.

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

At June 30, 2019, the WPCRF reported a liability of $3,806,866 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2018, 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 WPCRF'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, 2018 and 2017, the WPCRF's proportion of the State's share was 0.04% and 0.05% respectively.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

There was no change in actuarial assumptions as of June 30, 2017 to June 30, 2018. There were no changes in assumptions between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2019, the WPCRF recognized pension expense of $377,098. At June 30, 2019, the WPCRF 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	$ 43,642	$ (25,850)
Changes in assumptions	434,853	-
Net difference between projected and actual earnings on pension plan investments	200,897	-
Changes in proportion and difference between WPCRF contributions and proportionate share of contributions	9,043	(24,462)
WPCRF contributions subsequent to the measurement date	229,948	-
	$ 918,383	$ (50,312)

The $229,948 reported as deferred outflows of resources related to pensions resulting from WPCRF contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Years Ending June 30,	Amount
2020	$ 176,171
2021	162,502
2022	118,522
2023	90,755
2024	90,173
Total	$ 638,123

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees' Retirement System of the State of Hawaii, on December 12, 2016, based on the most recent experience study dated July 5, 2016:

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

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the 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 real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, the same 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.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

Sensitivity of the WPCRF's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the WPCRF's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the WPCRF'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%)	Discount Rate (7.00%)	1% Increase (8.00%)
WPCRF's proportionate share of the net pension liability	$ 4,951,801	$ 3,806,866	$ 2,863,042

Pension Plan Fiduciary Net Position

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

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

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, 2019, there was no payable to the ERS.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

2. 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.

3. Post-Employment Health Care and Life Insurance Benefits

Plan Description

The state provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii (SLH) of 2001, the state contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan, 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. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii, 96805-2121.

State Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's net OPEB liability, deferred inflows and outflows, and OPEB expense, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's Comprehensive Annual Financial Report (CAFR). The basis for the allocation is the proportionate share of contributions made by each component unit or proprietary fund for retiree health benefits.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the WPCRF was $293,784 for the fiscal year ended June 30, 2019. The employer is required to make all contributions for members.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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

At June 30, 2019, the WPCRF reported a liability of $3,736,978 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The State's proportion of the net OPEB liability was based on a projection of the State's long-term share of contributions to the EUTF relative to projected contributions of all participants, actuarially determined. The WPCRF'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, 2018 and 2017, the WPCRF's proportion of the State's share was 0.03% and 0.04% respectively.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

For the year ended June 30, 2019, the WPCRF recognized OPEB expense of $272,306. At June 30, 2019, the WPCRF 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 bewteen expected and actual experience	$ -	$ (56,302)
Changes in assumptions	34,076	-
Net difference bewteen projected and actual earnings on investments	-	(4,660)
WPCRF contributions subsequent to the measurement date	293,784	-
	$ 327,860	$ (60,962)

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

The $293,784 reported as deferred outflows of resources related to OPEB resulting from WPCRF contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Years Ending June 30,		Amount
2020	$	(5,562)
2021		(5,562)
2022		(5,562)
2023		(5,563)
2024		(4,637)
Total	$	(26,886)

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial methods and assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five-year period June 30, 2015 as conducted for the ERS, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%, net of investment expenses, including inflation
Healthcare trend rates:	
PPO*	Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
HMO*	Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
Contribution	Initial rates of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental	Initial rate of 5.00% for first three years; followed by 4.00%
Vision	Initial rate of 0.00% for first three years; followed by 2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drug.

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

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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

Asset Class	Target Allocation	Long-term Expected Rate of Return
U.S. equity	15.00%	5.05%
Non-U.S. equity	17.00%	6.50%
U.S. microcap	7.00%	7.00%
Private equity	10.00%	8.65%
Private credit	6.00%	5.25%
Alternative risk premia	5.00%	2.45%
Core real estate	10.00%	4.10%
Global options	7.00%	4.50%
Core bonds	3.00%	1.30%
Long treasuries	6.00%	1.90%
Trend following	9.00%	3.00%
TIPS	5.00%	0.75%
	100.0%	

Single Discount Rate

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

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning Balance	$ 4,010,197	$ 303,728	$ 3,706,469
Service cost	73,702	-	73,702
Interest on the total OPEB liability	228,199	-	228,199
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(67,477)	-	(67,477)
Changes of assumptions	40,839	-	40,839
Employer contributions	-	219,542	(219,542)
Net investment income	-	25,295	(25,295)
Benefit payments	(111,113)	(111,113)	-
Administrative expense	-	(83)	83
Other	-	-	-
Net changes	164,150	133,641	30,509
Ending balance	$ 4,174,347	$ 437,369	$ 3,736,978

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
WPCRF's proportionate share of the net OPEB liability	$ 4,418,004	$ 3,736,978	$ 3,201,858

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

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
WPCRF's proportionate share of the net OPEB liability	$ 3,172,694	$ 3,736,978	$ 4,469,295

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position is 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. 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. EUTF's complete financial statements are available at http://eutf.hawaii.gov.

Required Supplementary Information and Disclosures

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

NOTE H - INSURANCE COVERAGE

Insurance coverage is maintained at the State level. The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation and other insurance claims are appropriated annually from the State's general fund.

DOH is covered by the State's self-insured workers' compensation program for medical expenses of injured Department employees. However, DOH is required to pay temporary total and temporary partial disability benefits as long as the employee is on DOH's payroll. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claim liabilities may be re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Workers' compensation benefit claims reported as well as incurred but not reported were reviewed at year end. The estimated losses from these claims were not material.

SUPPLEMENTARY INFORMATION

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Schedule of Cash Receipts, Disbursements and Cash Balance
For the Year Ended June 30, 2019

Receipts:	
Principal repayment on loans	$ 31,188,915
Interest income from loans	1,209,209
State contributions	2,054,000
Federal contributions	12,979,853
Administrative loan fees	1,705,176
Other interest income	1,285,596
Total receipts	50,422,749
Disbursements:	
Disbursement of loan proceeds	40,785,536
Administrative	2,198,160
Total disbursements	42,983,696
Excess of receipts over disbursements	7,439,053
Equity in Cash and Cash Equivalents and Investments in State Treasury:	
Beginning of fiscal year	170,393,501
End of fiscal year	$ 177,832,554

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Combining Statement of Net Position
June 30, 2019

	State Revolving Fund Activity	State Activity	Total
Assets and Deferred Outflows of Resources			
Current Assets:			
Equity in cash and cash equivalents and investments in State Treasury	$ 174,969,596	$ 2,862,958	$ 177,832,554
Loan fees receivable	-	395,573	395,573
Accrued interest on loans	314,153	-	314,153
Due from State Treasury	3,395,230	-	3,395,230
Current maturities of loans receivable	30,912,954	-	30,912,954
Total current assets	209,591,933	3,258,531	212,850,464
Loans Receivable, net of current maturities	329,882,524	-	329,882,524
Capital Assets, net of accumulated depreciation	565,642	18,231	583,873
Total assets	540,040,099	3,276,762	543,316,861
Deferred Outflows of Resources	-	1,246,243	1,246,243
Total assets and deferred outflows of resources	$ 540,040,099	$ 4,523,005	$ 544,563,104
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities--			
Accounts Payable and Other Accrued Liabilities	$ 93,683	$ 126,027	$ 219,710
Accrued Vacation, net of current portion	62,924	87,613	150,537
Net Pension Liability	-	3,806,866	3,806,866
Net Other Postemployment Benefits Liability	-	3,736,978	3,736,978
Total liabilities	156,607	7,757,484	7,914,091
Deferred Inflows	-	111,274	111,274
Net Position:			
Net investment in capital assets	565,642	18,231	583,873
Restricted - expendable	539,317,850	(3,363,984)	535,953,866
Total net position	539,883,492	(3,345,753)	536,537,739
Total liabilities, deferred inflows of resources, and net position	$ 540,040,099	$ 4,523,005	$ 544,563,104

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Combining Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

	State Revolving Fund Activity	State Activity	Total
Operating Revenues:			
Interest income from loans	$ 1,197,517	$ -	$ 1,197,517
Administrative loan fees	-	1,746,828	1,746,828
Total operating revenue	1,197,517	1,746,828	2,944,345
Operating Expenses:			
Administrative	1,016,094	1,951,290	2,967,384
Principal forgiveness	1,026,800	-	1,026,800
Total operating expenses	2,042,894	1,951,290	3,994,184
Operating loss	(845,377)	(204,462)	(1,049,839)
Nonoperating Revenues:			
State contributions	2,054,000	-	2,054,000
Federal contributions	14,228,752	-	14,228,752
Other interest income	3,551,154	-	3,551,154
Other income	1,874	4,147	6,021
Total nonoperating revenues	19,835,780	4,147	19,839,927
Change in net position	18,990,403	(200,315)	18,790,088
Net Position:			
Beginning of fiscal year	520,421,146	(2,673,495)	517,747,651
Transfer from State Activity to SRF Activity	471,943	(471,943)	-
End of fiscal year	$ 539,883,492	$ (3,345,753)	$ 536,537,739

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Schedule of Operating Expenses
For the Year Ended June 30, 2019

	State Revolving Fund Activity	State Activity	Total
Personnel	$ 304,753	$ 1,183,577	$ 1,488,330
Principal Forgiveness	1,026,800	-	1,026,800
Pension Expense	-	377,098	377,098
OPEB Expense	-	272,306	272,306
Intergovernmental Personnel Agreement Expenses	600,000	-	600,000
Travel	13,961	27,312	41,273
Professional Services	-	22,065	22,065
Services rendered by other State agencies	-	16,494	16,494
Telephone	3,010	8,107	11,117
Rental	3,946	2,945	6,891
Office and Other Supplies	1,392	3,394	4,786
Training	1,578	6,310	7,888
Depreciation	86,737	3,008	89,745
Miscellaneous	717	28,674	29,391
Total operating expenses	$ 2,042,894	$ 1,951,290	$ 3,994,184

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor / Program Title	Federal CFDA Number	Project Number	Total Federal Expenditures	Passed through to Subrecipients
Environmental Protection Agency-- Capitalization Grants for Clean Water State Revolving Funds	66.458	various	$11,691,163	$ 11,691,163
Total			$11,691,163	$ 11,691,163

Department of Health
Water Pollution Control Revolving Fund
State of Hawaii

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Water Pollution Control Revolving Fund (WPCRF) under programs of the federal government for the year ended June 30, 2019. 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 WPCRF, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the WPCRF.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Loans Receivable Outstanding

At June 30, 2019, WPCRF had a loans receivable balance outstanding of $35,031,583 related to loans made during the year. Loans made during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards.

4. Indirect Cost Rate

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

PART II

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

Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

Independent Auditor's Report

To the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of State of Hawaii, Water Pollution Control Revolving Fund (WPCRF) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the WPCRF's basic financial statements, and have issued our report thereon dated November 27, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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Compliance and Other Matters

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

Purpose of this Report

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

KMH LLP

KMH LLP

Honolulu, Hawaii
November 27, 2019

PART III

REPORT ON COMPLIANCE FOR A FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Report On Compliance for a Federal Program and on Internal Control Over Compliance Required by Uniform Guidance

Independent Auditor's Report

To the Auditor
State of Hawaii

Report on Compliance for Capitalization Grants for Clean Water State Revolving Funds Program

We have audited the State of Hawaii, Water Pollution Control Revolving Fund's (WPCRF) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* that could have a direct and material effect on its Capitalization grants for the Clean Water State Revolving Funds Program (Program) for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the WPCRF's 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* 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 the program occurred. An audit includes examining, on a test basis, evidence about the WPCRF'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 WPCRF's program. However, our audit does not provide a legal determination of the WPCRF's compliance.

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Opinion on Compliance for Capitalization Grants for Clean Water State Revolving Funds

In our opinion, the WPCRF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the WPCRF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the WPCRF's internal control over compliance with the types of requirements that could have a direct and material effect on its Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 WPCRF's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund* Programs. Accordingly, this report is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 27, 2019