



December 11, 2024

VIA EMAIL

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

VIA EMAIL

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

RE: Financial and Compliance Audit of the Department of Health, Drinking Water Treatment Revolving Loan Fund

Dear President Kouchi and Speaker Nakamura:

The audit report on the financial statements and compliance of the Department of Health's Drinking Water Treatment Revolving Loan Fund for the fiscal year ended June 30, 2024, was issued on December 2, 2024. 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:

https://files.hawaii.gov/auditor/Reports/2024_Audit/DOH_DWTRLF_2024.pdf; and

https://files.hawaii.gov/auditor/Reports/2024_Audit/DOH_DWTRLF_Summary_2024.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

emo

Attachment

ec/attach (Auditor's Summary only): Members of the Senate

Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Health, Drinking Water Treatment Revolving Loan Fund

Financial Statements, Fiscal Year Ended June 30, 2024



PHOTO: ISTOCK.COM

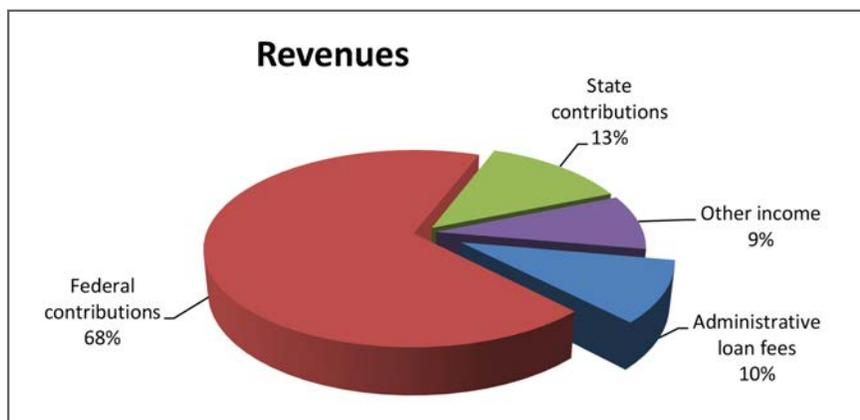
About the Fund

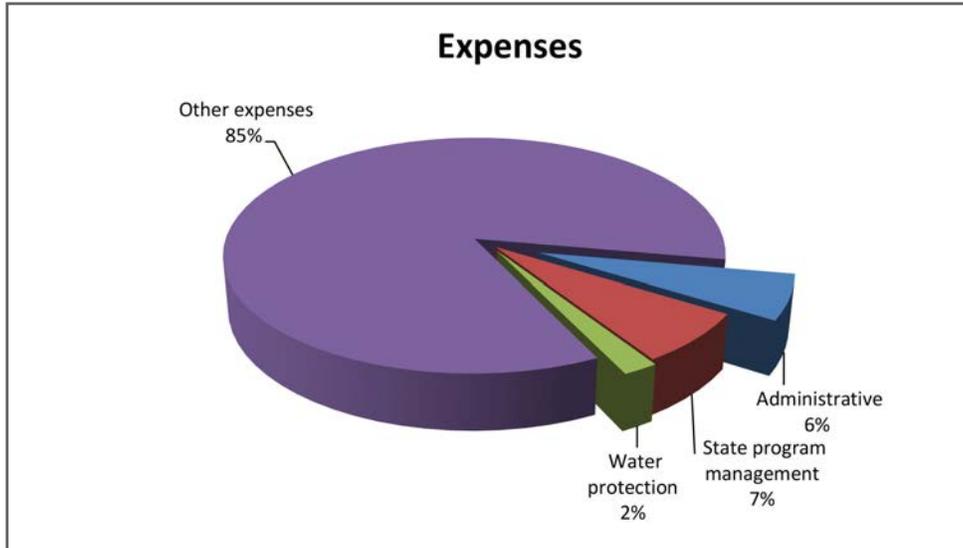
The Safe Drinking Water Act was originally passed by Congress in 1974 to protect public health by regulating the nation's public drinking water supply. The law was amended in 1996 to provide funding for water system improvements. In 1997, the Hawai'i State Legislature established the Drinking Water Treatment Revolving Loan Fund (Revolving Fund) to receive federal capitalization grants from the U.S. Environmental Protection Agency. The Revolving Fund is used to provide loans in perpetuity to public drinking water systems for construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years. The Revolving Fund is administered by the State of Hawai'i Department of Health's Environmental Management Division, Safe Drinking Water 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, Drinking Water Treatment Revolving Loan Fund, as of and for the fiscal year ended June 30, 2024, 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. The audit was conducted by KMH LLP.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2024, the Revolving Fund reported total revenues of \$28.2 million and total operating expenses of \$23.1 million, resulting in a change in net position of \$5.1 million. Total revenues consisted of (1) administrative loan fees of \$2.8 million, (2) federal





contributions of \$19.3 million, (3) state contributions of \$3.6 million, and (4) other income of \$2.5 million.

Total expenses consisted of (1) administrative expenses of \$1.5 million, (2) state program management of \$1.6 million, (3) water protection of \$500,000, and (4) other expenses of \$19.6 million.

As of June 30, 2024, total assets and deferred outflows of resources were \$281.4 million and total liabilities and deferred inflows of resources were \$7 million. Total assets were comprised of (1) cash and cash equivalents of \$44.7 million, (2) loans receivable of \$233.2 million, and (3) other assets and deferred outflows of resources of \$3.5 million. Total liabilities were comprised of (1) net other post-employment benefits liability of \$2.4 million, (2) net pension liability of \$2.7 million, and (3) other liabilities and deferred inflows of resources of \$1.9 million.

Auditors' Opinion

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 the Drinking Water State Revolving Funds Program (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.



Link to the complete report:

Financial Audit

https://files.hawaii.gov/auditor/Reports/2024_Audit/DOH_DWTRLF_2024.pdf

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Financial Statements
June 30, 2024
Together with Independent Auditor's Report

Submitted by

THE AUDITOR
STATE OF HAWAII

Table of Contents

	Page
PART I	FINANCIAL SECTION
	Independent Auditor's Report 4 – 7
	Management's Discussion and Analysis 8 – 12
	Basic Financial Statements
	Statement of Net Position 13
	Statement of Revenues, Expenses and Changes in Net Position 14
	Statement of Cash Flows 15 – 16
	Notes to the Financial Statements 17 – 45
	Supplementary Information
	Schedule of Cash Receipts, Disbursements and Cash Balance 47
	Combining Statement of Net Position 48
	Combining Statement of Revenues, Expenses, and Changes in Net Position 49
	Schedule of Operating Expenses 50
	Schedule of Expenditures of Federal Awards 51
	Notes to Schedule of Expenditures of Federal Awards 52
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 54
PART III	REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE 57
PART IV	SCHEDULE OF FINDINGS AND QUESTIONED COSTS 61

PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Auditor
State of Hawaii

Report on the Audit of the Financial Statements Opinion

We have audited the financial statements of the State of Hawaii, Drinking Water Treatment Revolving Loan Fund (DWTRLF) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the DWTRLF's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the DWTRLF as of June 30, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note B, the financial statements of the DWTRLF, 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 the DWTRLF. 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, 2024, 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the DWTRLF's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8 through 12 be presented to supplement the basic financial statements. Such information, is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the DWTRLF's basic financial statements. The supplementary information on pages 47 to 50 are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively, comprise the DWTRLF's basic financial statement. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statement. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2024 on our consideration of the DWTRLF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DWTRLF'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 DWTRLF's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
December 2, 2024

Department of Health Drinking Water Treatment Revolving Loan Fund State of Hawaii

Management's Discussion and Analysis
June 30, 2024

This Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities and performance of the Department of Health, State of Hawai'i, Drinking Water Treatment Revolving Loan Fund (DWTRLF) during the fiscal year that ended on June 30, 2024. Please read it in conjunction with the DWTRLF's financial statements and the related notes to the basic financial statements (which follow this section).

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the DWTRLF's financial statements. The accompanying report only provides information on the financial activities associated with the DWTRLF, which is a proprietary fund of the Department of Health. The program's financial statements are comprised of two components: (1) financial statements; and (2) notes to the basic financial statements.

FINANCIAL STATEMENTS

The financial statements provide information about the DWTRLF's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consists of the following three statements:

- The *Statement of Net Position* presents all of the DWTRLF's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in the DWTRLF's net position may serve as a useful indicator of whether the financial position of the DWTRLF is improving or deteriorating.
- The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the DWTRLF's net position changed during the past year.
- The *Statement of Cash Flows* report the DWTRLF's cash flows from operating activities, noncapital financing activities and investing activities.

NOTES TO THE BASIC FINANCIAL STATEMENTS

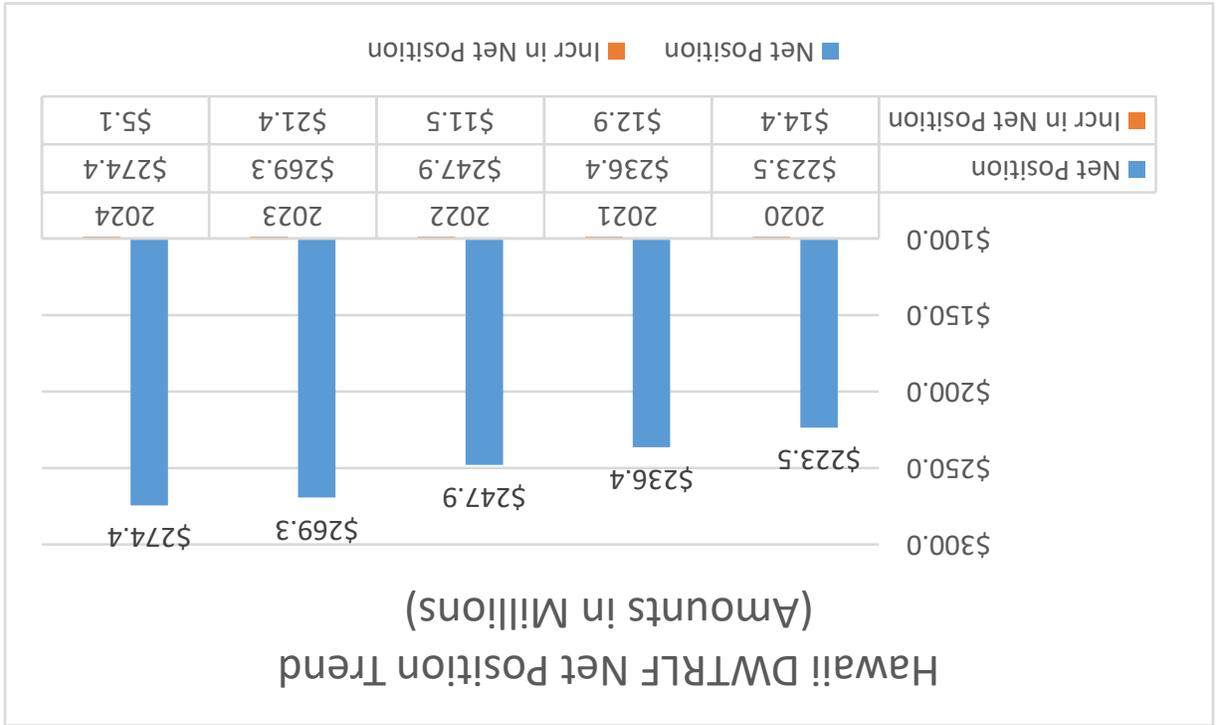
The Notes to Basic Financial Statements section provides additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements follow the basic financial statements.

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Management's Discussion and Analysis
June 30, 2024

FINANCIAL HIGHLIGHTS

- The DWTRLF's total net position increased from \$269.3 million as of June 30, 2023 to \$274.4 million as of June 30, 2024, or by approximately \$5.1 million. The total increase in net position was attributed to federal contributions (EPA grants), state matching contribution, interest earnings from loans, and loan fee earnings, which strengthened the financial position of the Fund.
- The increase in current assets of \$10.9 million for the year ended June 30, 2024 was mainly due to cash and cash equivalents increasing from principal repayments received and increase in current loan receivables during the year.
- Loans receivable decreased by \$4.7 million. The decrease is due to the increase of principal forgiveness loan payments from the Bipartisan Infrastructure Law (BIL) state revolving fund grants.
- Current liabilities increased by \$0.7 million for the year ending June 30, 2024, mainly due to increase and timing of accounts and payroll related payables.



Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Management's Discussion and Analysis
June 30, 2024

FINANCIAL ANALYSIS

This section includes condensed financial information and analysis.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
CONDENSED STATEMENT OF NET POSITION
(Amount in Thousands)

	June 30,	
	2024	2023
Current Assets	\$ 63,966	\$ 53,096
Capital Assets	105	147
Loans Receivable, non current	<u>216,543</u>	<u>221,795</u>
Total Assets	280,614	275,038
Deferred outflows of resources	<u>759</u>	<u>572</u>
Current Liabilities	936	280
Long Term Liabilities	<u>5,315</u>	<u>5,130</u>
Total Liabilities	6,251	5,410
Deferred inflows of resources	<u>721</u>	<u>902</u>
Net Position		
Net Investment in Capital Assets	104	147
Restricted	<u>274,297</u>	<u>269,151</u>
Total Net Position	\$ 274,401	\$ 269,298

As noted earlier, changes in net position may serve over time as a useful indicator of the DWTRLF's financial position. As of June 30, 2024, the DWTRLF's total net position was approximately \$274.4 million.

At June 30, 2024, in addition to equity in cash and cash equivalents in the state treasury approximating \$44.7 million, the DWTRLF had total loans receivable from county governments in the amount of \$233.2 million

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Management's Discussion and Analysis
June 30, 2024

arising from the revolving loan fund program. The DWTRLF had total liabilities of \$6.3 million at June 30, 2024. Most of the liabilities is related to net pension and net OPEB liability.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
CONDENSED STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET
POSITION
(Amounts in Thousands)
June 30,

	2024	2023
Revenues:		
Operating Revenues:		
Interest earnings from loans	\$ 766	\$ 746
Administration loan fee earnings	2,800	2,638
Total Revenues	3,566	3,384
Expenses:		
Program and Administrative	3,791	2,692
Principal Forgiveness	19,347	4,790
Total Expenses	23,138	7,482
Operating Loss	(19,572)	(4,098)
Non-Operating Revenues:		
Federal Contribution	19,305	20,528
State and Other Contributions	5,370	5,001
Change in Net Position	5,103	21,431
Net Position:		
Beginning of year	269,298	247,867
End of year	\$ 274,401	\$ 269,298

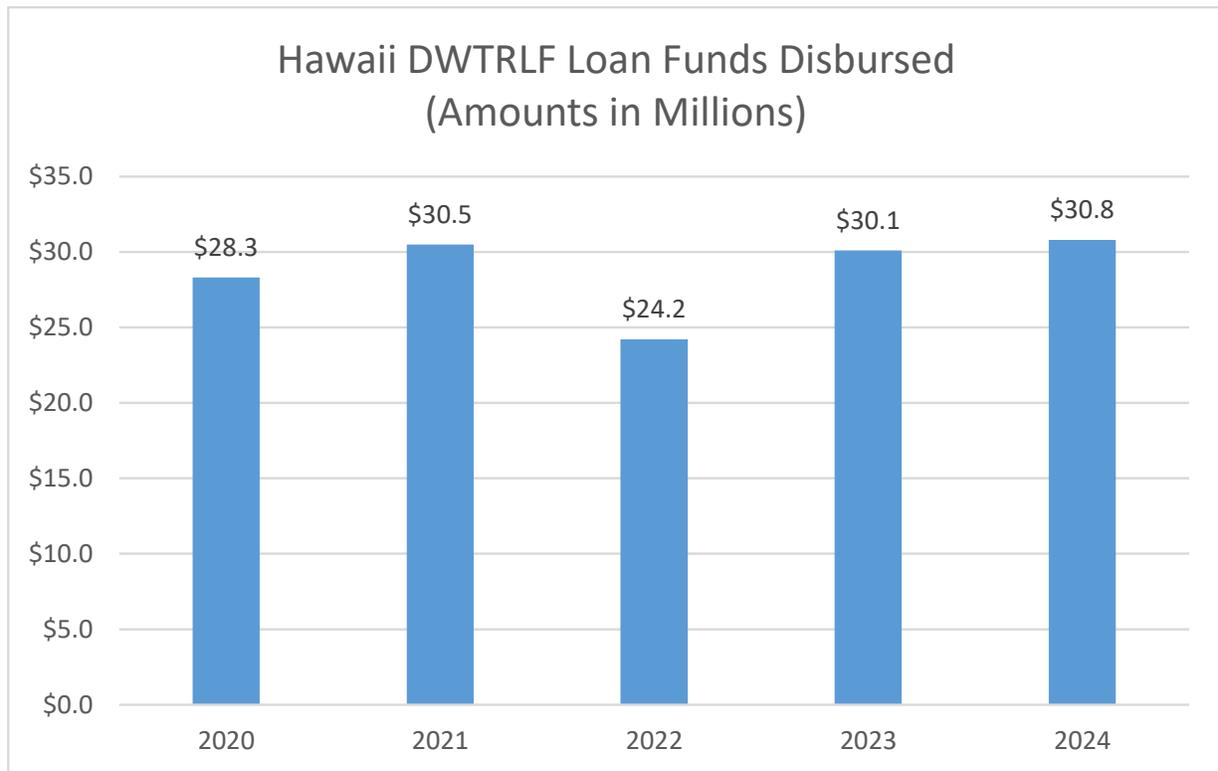
Operating expenses increased by \$15.7 million from 2023. This is mainly due to principal forgiveness.

Department of Health Drinking Water Treatment Revolving Loan Fund State of Hawaii

Management's Discussion and Analysis
June 30, 2024

Total expenses for FY 2024 were \$23.1 million of which \$3.8 million was for payroll, operating, and program expenses and \$19.3 million was for loan principal forgiveness. As compared to FY 2023, total expenses were \$7.5 million of which \$2.7 million was for payroll, operating and program expenses. \$4.8 million in principal forgiveness was provided in 2023. Principal forgiveness is provided to assist borrowers with their loans. Operating loss increased by \$15.5 million over FY 2023. The difference is mainly due to the timing of the principal forgiveness paid in these years.

The DWTRLF accounts for federal and state funds used to provide loans to county governments and private borrowers for the construction of drinking water infrastructure projects and the repayment of principal, interest and fees from such loans and investment of such monies. During FY 2024, DWTRLF received \$19.3 million and \$3.6 million of federal and state funds, respectively. DWTRLF also disbursed \$30.8 million in loan proceeds and collected \$16.1 million in principal repayments in 2024. As compared to 2023, the fund collected \$20.4 million and \$4.0 million in federal and state contributions, respectively, disbursed \$30.1 million in loan proceeds, and collected \$14.9 million in principal payments.



And lastly, the DWTRLF executed a total of nine loan agreements for \$44.4 million during FY 2024.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Statement of Net Position
June 30, 2024

Assets and Deferred Outflows of Resources

Current Assets:	
Equity in cash and cash equivalents and investments in State Treasury	\$ 44,687,180
Loan fees receivable	686,769
Accrued interest on loans	185,724
Due from federal government	589,212
Due from State Treasury	1,145,817
Current maturities of loans receivable	<u>16,671,910</u>
Total current assets	63,966,612
Loans Receivable, net of current maturities	216,542,879
Capital Assets, net of accumulated depreciation	<u>104,693</u>
Total assets	280,614,184
Deferred Outflows of Resources	<u>759,723</u>
Total assets and deferred outflows of resources	<u><u>\$ 281,373,907</u></u>

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilities--	
Accounts Payable and Other Accrued Liabilities	\$ 936,173
Accrued Vacation, net of current portion	207,665
Net Pension Liability	2,720,612
Net Other Postemployment Benefits Liability	<u>2,386,466</u>
Total liabilities	<u>6,250,916</u>
Deferred Inflows of Resources	<u>721,315</u>
Net Position:	
Net investment in capital assets	104,693
Restricted - expendable	<u>274,296,983</u>
Total net position	<u>274,401,676</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 281,373,907</u></u>

See accompanying notes to the financial statements.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2024

Operating Revenues:	
Interest income from loans	\$ 766,092
Administrative loan fees	<u>2,800,057</u>
Total operating revenue	<u>3,566,149</u>
Operating Expenses:	
Administrative	1,451,866
State program management	1,576,397
Water protection	537,993
Small systems technical assistance	224,403
Principal forgiveness	<u>19,347,085</u>
Total operating expenses	<u>23,137,744</u>
Operating loss	<u>(19,571,595)</u>
Nonoperating Revenues:	
State contributions	3,604,000
Federal contributions	19,305,482
Other interest income	1,747,395
Other income	<u>17,925</u>
Total nonoperating revenues	<u>24,674,802</u>
Change in net position	5,103,207
Net Position:	
Beginning of fiscal year	<u>269,298,469</u>
End of fiscal year	<u>\$ 274,401,676</u>

See accompanying notes to the financial statements.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Statement of Cash Flows
For the Year Ended June 30, 2024

Cash Flows from Operating Activities:	
Payments to employees	\$ (2,025,440)
Payments to vendors	<u>(1,220,160)</u>
Net cash used in operating activities	<u>(3,245,600)</u>
Cash Flows from Noncapital Financing Activities:	
State contributions	3,604,000
Federal contributions	<u>19,035,304</u>
Net cash provided by noncapital financing activities	<u>22,639,304</u>
Cash Flows from Capital and Related Financing Activities --	
Purchase of Equipment	<u>(40,243)</u>
Cash Flows from Investing Activities:	
Principal repayments on loans	16,131,115
Disbursement of loan proceeds	(30,795,252)
Interest income from loans	763,493
Administrative loan fees	2,787,286
Other interest income	<u>1,403,393</u>
Net cash used in investing activities	<u>(9,709,965)</u>
Net increase in cash	9,643,496
Equity in Cash and Cash Equivalents and Investments in State Treasury:	
Beginning of fiscal year	<u>35,043,684</u>
End of fiscal year	<u>\$ 44,687,180</u>

See accompanying notes to the financial statements.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Statement of Cash Flows (continued)
For the Year Ended June 30, 2024

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	\$ (19,571,595)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	82,532
Principal forgiveness	19,347,085
Interest income from loans	(766,092)
Administrative loan fees	(2,800,057)
Non-imposed fringe benefits	17,925
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Due from State Treasury	(27,948)
Accounts payable and other accrued liabilities	738,872
Net deferred outflows/inflows of resources	(368,568)
Net pension liability	117,818
Net other postemployment benefits liability	(15,572)
Net cash used in operating activities	<u>\$ (3,245,600)</u>

See accompanying notes to the financial statements.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE A - ESTABLISHMENT AND PURPOSE OF THE FUND

The Safe Drinking Water Act Amendments (SDWA) of 1996 (the Act) authorized the Environmental Protection Agency (EPA) to make capitalization grants to the states for the purpose of providing loans and other types of financial assistance to public water supply systems for drinking water infrastructure.

The Act also authorized the states to set aside funding for prevention programs and administration of the Drinking Water Treatment Revolving Loan Fund (DWTRLF or Fund), provided that the amount of funding did not exceed thirty-one percent (31%) of the annual capitalization grant as follows:

1. Up to fifteen percent (15%) may be used to provide local assistance and other state programs.
2. Up to four percent (4%) may be used to cover the costs of program administration.
3. Up to ten percent (10%) may be used for Public Water System Supervision (PWSS) program activities and other initiatives of the SDWA.
4. Finally, up to two percent (2%) may be used to support small systems technical assistance activities.

To receive the federal capitalization grants, the 1997 State of Hawaii (State) Legislature established the Fund to receive federal capitalization grants from EPA. The DWTRLF is intended to provide loans in perpetuity to public drinking water systems for construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within 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 Safe Drinking Water 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 DWTRLF and do not purport to present the financial position, results of operation or cash flows of the State or DOH.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 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 DWTRLF are interest income and administrative loan fees on loans made to county governments and private borrowers. 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.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

All monies of the DWTRLF 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 is 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, 2024, information relating to the 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 provided 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 certain loans allow for portions of the loan 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.

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Notes to Financial Statements
June 30, 2024

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2024, accumulated sick leave was approximately \$635,000.

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.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

DWTRLF'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 the Fund are subject to externally-imposed stipulations that can be fulfilled by actions of the Fund pursuant to those stipulations or that expire by the passage of time.

11. Administrative 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 the DWTRLF, since they are not practical to determine.

12. Fund Accounts

The DWTRLF consists of the State Revolving Fund (SRF) and non-SRF activity. The SRF activity consists exclusively of federal capitalization grant loans, state matching contributions, principal loan repayments, and interest from loans and other earning assets. Non-SRF activity consists of administrative loan fees and federal set aside 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.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2024:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Related to Pensions	\$ 408,913	\$ (366,013)
Related to Other Postemployment Benefits	350,810	(355,302)
	<u>\$ 759,723</u>	<u>\$ (721,315)</u>

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

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Notes to Financial Statements
June 30, 2024

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

16. Other Postemployment Benefits (OPEB)

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

17. Indirect Cost

The state charges the DWTRLF federal grants an indirect cost on direct salaries and wages, including all fringe benefits. It is determined based on a negotiated Federal indirect rate.

18. Due from State Treasury

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

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
 June 30, 2024

NOTE C - LOANS RECEIVABLE

At June 30, 2024, the DWTRLF had outstanding loan receivables with the following government entities:

Sixteen loans with the City & County of Honolulu, Board of Water Supply; due in semiannual payments, including interest ranging from 0.00% to 1.15%, 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.	\$ 126,672,517
Twenty-one loans with the County of Hawaii, Water Board; due in semiannual payments, including interest ranging from 0.00% to 1.00%, 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.	55,796,006
Seventeen loans with the County of Maui, Board of Water Supply; due in semiannual payments, including interest ranging from 0.00% to 1.15%, 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.	38,111,747
Twelve loans with the County of Kauai, Board of Water Supply; due in semiannual payments, including interest ranging from 0.16% to 0.65%, 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.	<u>12,634,519</u>
	233,214,789
Less: current maturities	<u>(16,671,910)</u>
	<u>\$ 216,542,879</u>

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE C - LOANS RECEIVABLE (continued)

Loans are expected to mature at various dates through 2045. The scheduled principal payments on loans maturing in subsequent years are as follows:

<u>Fiscal Years Ending,</u>	<u>Amount</u>
2025	\$ 16,671,910
2026	16,737,737
2027	16,799,432
2028	16,477,295
2029	16,657,897
2030-2034	79,490,434
2035-2039	56,673,372
2040-2045	13,706,712
	<u>\$ 233,214,789</u>

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 2024, \$19,347,085 in loans were forgiven. Loans and advances were forgiven in accordance with the required conditions.

As of June 30, 2024, the DWTRLF were earmarked to be loaned under existing commitment notices to the following borrowers:

City and County of Honolulu	\$ 5,610,000
County of Kauai	5,000,000
County of Maui	1,502,403
Private Water Systems	<u>1,906,870</u>
Total	<u>\$ 14,019,273</u>

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE D – CONTRIBUTED CAPITAL

The DWTRLF is capitalized by grants from EPA authorized by Section 1452 of the Safe Drinking Water Act (the Act) and matching funds from the State. As of June 30, 2024, EPA has awarded \$304,960,188 to the State of Hawaii, of which \$260,423,334 has been drawn down for loans and set asides and the remaining \$1,517,650 is related to EPA in-kind draws. Total draws including EPA in-kind draws is \$261,940,984.

The following summarizes the EPA capitalization grants, amounts drawn on each grant, and the balances available for future loans at June 30, 2024:

Budget Period	Amount	Total Draws at June 30, 2023	EPA Draws	Total 2024 Cash Draws	Funds Available
07/01/20 - 06/30/25	\$ 11,011,000	\$ 11,004,450	\$ -	\$ 6,550	\$ -
07/01/22 - 06/30/29	7,008,000	2,010,600	-	4,143,309	854,091
10/01/23 - 06/30/28	4,938,000	-	-	4,743,028	194,972
07/01/22 - 06/30/29	17,992,000	14,078,082	-	2,322,167	1,591,751
10/01/23 - 06/30/30	21,055,000	-	-	7,820,250	13,234,750
10/01/23 - 06/30/29	7,555,000	-	-	-	7,555,000
10/01/23 - 06/30/29	19,588,640	-	-	-	19,588,640
	<u>\$ 89,147,640</u>	<u>\$ 27,093,132</u>	<u>\$ -</u>	<u>\$ 19,035,304</u>	<u>\$ 43,019,204</u>

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. For the FFY22-23 BIL General Supplemental grant, the required State match is reduced from 20% to 10%. Through June 30, 2024, the Fund was in compliance with the State matching requirement. The required State match through June 30, 2024 approximated \$51.7 million, of which the entire amount has been utilized.

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2024 was as follows:

	Balance at July 1, 2023	Additions	Retirements / Disposals	Balance at June 30, 2024
Equipment	\$ 2,176,520	\$ 40,243	\$ -	\$ 2,216,763
Intangible Assets - Software	648,899	-	-	648,899
Accumulated Depreciation	(2,678,436)	(82,533)	-	(2,760,969)
	<u>\$ 146,983</u>	<u>\$ (42,290)</u>	<u>\$ -</u>	<u>\$ 104,693</u>

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Notes to Financial Statements
June 30, 2024

NOTE F – ACCRUED VACATION

The changes to the accrued vacation liability during 2024 were as follows:

Balance at July 1, 2023	\$ 186,846
Increase	188,137
Decrease	<u>(88,805)</u>
Balance at June 30, 2024	286,178
Less: Current portion	<u>(78,513)</u>
Noncurrent portion	<u>\$ 207,665</u>

NOTE G – Temporary Hazard Pay

The State entered into multiple settlement agreements regarding the temporary hazard pay (THP) with unions for periods covering dates in March 2020 through March 2022, for those employees who performed essential functions during the COVID-19 pandemic. Total accrued payroll for the fiscal year ended June 30, 2024, related to temporary hazard pay was \$105,285.

Act 049, SLH 2024 provided emergency appropriations for public employment cost items and cost adjustments for employees of certain collective bargaining units. Effective July 1, 2024, the State appropriated a total of \$458.8 million as a result of a negotiated settlement for employees who met certain requirements during the COVID-19 pandemic.

As of December 2, 2024, the State continues to negotiate with the remaining unions, and it was not practical to estimate the total liability owed to eligible employees.

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS

1. Pension Plan

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by 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 the ERS website: <https://ers.ehawaii.gov/resources/financials>.

Benefits Provided

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

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

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

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 surviving 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 surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member’s accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member’s accrued maximum allowance unreduced for age.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - 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 dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - 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 age 55, provided the last five years is service credited in these occupations.

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

For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - 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 surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Hybrid Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - 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 2024 were 41% for police officers and firefighters and 24% for all other employees. Contributions to the pension plan from the DWTRLF were \$263,937 for the fiscal year ended June 30, 2024.

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, 2024, the DWTRLF reported a liability of \$2,720,612 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2023, 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 DWTRLF'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, 2023 and 2022 the DWTRLF's proportion of the State's share was 0.03% and 0.04%, respectively.

There were no changes in actuarial assumptions as of June 30, 2022 to June 30, 2023. There were no changes between the measurement date, June 30, 2023, and the reporting date, June 30, 2024, that are expected to have a significant effect on the proportionate share of the net pension liability.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

For the year ended June 30, 2024, the DWTRLF recognized pension expense of \$213,824. At June 30, 2024, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between expected and actual experience	\$ 62,832	\$ -
Changes in assumptions	53,946	(30,398)
Net difference between projected and actual earnings on pension plan investments	-	(327,712)
Changes in proportion and difference between DWTRLF contributions and proportionate share of contributions	28,198	(7,903)
DWTRLF contributions subsequent to the measurement date	<u>263,937</u>	<u>-</u>
	<u>\$ 408,913</u>	<u>\$ (366,013)</u>

At June 30, 2024, the \$263,937 reported as deferred outflows of resources related to pensions resulting from DWTRLF contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2025.

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

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

<u>Fiscal Years Ending June 30,</u>	
2025	\$ (96,759)
2026	(79,179)
2027	(76,853)
2028	27,512
2029	4,242
Total	<u>\$ (221,037)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Employees’ Retirement System of the State of Hawaii, on August 8, 2022, based on the 2021 Experience Study for the five-year period from July 1, 2016 through June 30, 2021:

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

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

Post-retirement mortality rates are based on the 2022 Public Retirees of Hawaii mortality table with full generational projections in future years. Pre-retirement mortality rates are based on multiples of Pub-2010 mortality table based on the occupation of the member.

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

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

The rate of returns based on ERS's investment consultant as of June 30, 2023, are summarized in the following table:

Classes	Strategic Class Weights	Long-Term Expected Geometric Rate of Return
Broad growth		
Private equity	13.50%	10.00%
Global equity	20.00%	7.90%
Low volatility equity	4.00%	7.10%
Global options	4.00%	5.80%
Credit	6.00%	8.00%
Core real estate	6.00%	6.00%
Non-core real estate	4.50%	7.90%
Timber/agriculture/infrastructure	5.00%	7.20%
Diversifying strategies		
TIPS	2.00%	3.20%
Global macro	4.00%	6.00%
Reinsurance	4.00%	7.00%
Alternative risk premia	8.00%	5.00%
Long Treasuries	5.00%	3.80%
Intermediate government	4.00%	3.20%
Systematic trend following	10.00%	4.70%
Total investments	100.00%	

Discount Rate

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

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

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

The following presents the DWTRLF's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the DWTRLF'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 <u>(6.00%)</u>	Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
DWTRLF's proportionate share of the net pension liability	<u>\$ 3,621,943</u>	<u>\$ 2,720,612</u>	<u>\$ 1,974,156</u>

Pension Plan Fiduciary Net Position

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

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

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

Payables to the Pension Plan

At June 30, 2024, there was no payable to the ERS.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - 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 that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports/>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii, 96805-2121.

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

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

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

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

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 Annual Comprehensive Financial Report (ACFR). 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 DWTRLF was \$252,305 for the fiscal year ended June 30, 2024. The employer is required to make all contributions for members.

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

At June 30, 2024, the DWTRLF reported a liability of \$2,386,466 for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The DWTRLF'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, 2023 and 2022, the DWTRLF's proportion of the State's share was 0.01% and 0.02%, respectively.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

There were no changes between the measurement date, July 1, 2023, and the reporting date, June 30, 2024, that are expected to have a significant effect on the proportionate share of the net OPEB liability.

For the year ended June 30, 2024, the DWTRLF recognized OPEB expense of \$36,096. At June 30, 2024, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (305,738)
Changes in assumptions	20,095	(49,564)
Net difference between projected and actual earnings on investments	78,410	-
DWTRLF contributions subsequent to the measurement date	<u>252,305</u>	<u>-</u>
	<u>\$ 350,810</u>	<u>\$ (355,302)</u>

At June 30, 2024, the \$252,305 reported as deferred outflows of resources related to OPEB resulting from DWTRLF contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Years Ending June 30,</u>	
2025	\$ (78,997)
2026	(83,244)
2027	(52,431)
2028	(37,675)
2029	<u>(4,450)</u>
Total	<u>\$ (256,797)</u>

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
 June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

Actuarial Assumptions

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

Inflation	2.50%
Salary increases	3.75% to 6.75% including inflation
Investment rate of return	7.00%
Healthcare Trend Rates:	
PPO*	Initial rate of 6.30%; declining to a rate of 4.25% after 21 years
HMO*	Initial rate of 6.30%; declining to a rate of 4.25% after 21 years
Contribution	Initial rate of 5.00%; declining to a rate of 4.25% after 21 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drugs.

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

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private equity	15.00%	10.0%
U.S. microcap	3.00%	8.7%
Global equity	27.50%	7.6%
Global options	0.00%	4.9%
Real assets	12.00%	4.3%
Private credit	10.00%	7.8%
TIPS	5.00%	2.0%
Long Treasuries	5.50%	2.4%
Reinsurance	5.00%	3.4%
Alternative risk premia	5.00%	3.3%
Trend following	10.00%	2.1%
Tail risk/ Long volatility	2.00%	-1.1%
Total investments	100.00%	

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on EUTF's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

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

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

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Financial Statements
June 30, 2024

NOTE H - 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, 2023.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning Balance	\$ 3,238,075	\$ 836,037	\$ 2,402,038
Service cost	28,534	-	28,534
Interest on the total OPEB liability	97,700	-	97,700
Difference between expected and actual experience	(9,612)	-	(9,612)
Changes of assumptions	-	-	-
Employer contributions	-	108,402	(108,402)
Net investment income	-	23,728	(23,728)
Benefit payments	(54,336)	(54,336)	-
Administrative expense	-	(34)	34
Other	-	98	(98)
Net changes	<u>62,286</u>	<u>77,858</u>	<u>(15,572)</u>
Ending balance	<u>\$ 3,300,361</u>	<u>\$ 913,895</u>	<u>\$ 2,386,466</u>

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

The following table presents the DWTRLF's proportionate share of the net OPEB liability calculated using the discount rate of 7.00%, as well as what the DWTRLF'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%)
DWTRLF's proportionate share of the net OPEB liability	<u>\$ 2,984,233</u>	<u>\$ 2,386,466</u>	<u>\$ 1,909,346</u>

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Notes to Financial Statements
June 30, 2024

NOTE H - EMPLOYEE BENEFIT PLANS (continued)

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

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
DWTRLF’s proportionate share of the net OPEB liability	<u>\$ 1,852,848</u>	<u>\$ 2,386,466</u>	<u>\$ 3,069,477</u>

Payables to the OPEB Plan

There was no contributions payable to EUTF as of June 30, 2024.

Required Supplementary Information and Disclosures

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

NOTE I - 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 DOH 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
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Schedule of Cash Receipts, Disbursements and Cash Balance
For the Year Ended June 30, 2024

Receipts:

Principal repayment on loans	\$ 16,131,115
Interest income from loans	763,493
State contributions	3,604,000
Federal contributions	19,035,304
Administrative loan fees	2,787,286
Other interest income	<u>1,403,393</u>
Total receipts	<u>43,724,591</u>

Disbursements:

Disbursement of loan proceeds	30,795,252
Administrative	<u>3,285,843</u>
Total disbursements	<u>34,081,095</u>
Excess of receipts over disbursements	9,643,496

Equity in Cash and Cash Equivalents and Investments in State Treasury:

Beginning of fiscal year	<u>35,043,684</u>
End of fiscal year	<u>\$ 44,687,180</u>

See accompanying independent auditor's report.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Combining Statement of Net Position
June 30, 2024

	<u>State Revolving Fund Activity</u>	<u>Non-SRF Activity</u>	<u>Total</u>
Assets and Deferred Outflows of Resources			
Current Assets:			
Equity in cash and cash equivalents and investments in State Treasury	\$ 40,825,817	\$ 3,861,363	\$ 44,687,180
Loan fees receivable	-	686,769	686,769
Accrued interest on loans	185,724	-	185,724
Due from federal government	-	589,212	589,212
Due from State Treasury	1,087,287	58,530	1,145,817
Current maturities of loans receivable	<u>16,671,910</u>	<u>-</u>	<u>16,671,910</u>
Total current assets	58,770,738	5,195,874	63,966,612
Loans Receivable, net of current maturities	216,542,879	-	216,542,879
Capital Assets, net of accumulated depreciation	<u>-</u>	<u>104,693</u>	<u>104,693</u>
Total assets	275,313,617	5,300,567	280,614,184
Deferred Outflows of Resources	<u>-</u>	<u>759,723</u>	<u>759,723</u>
Total assets and deferred outflows of resources:	<u>\$ 275,313,617</u>	<u>\$ 6,060,290</u>	<u>\$ 281,373,907</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities--			
Accounts Payable and Other Accrued Liabilities	\$ -	\$ 936,173	\$ 936,173
Accrued Vacation, net of current portion	-	207,665	207,665
Net Pension Liability	-	2,720,612	2,720,612
Net Other Postemployment Benefits Liability	<u>-</u>	<u>2,386,466</u>	<u>2,386,466</u>
Total liabilities	<u>-</u>	<u>6,250,916</u>	<u>6,250,916</u>
Deferred Inflows of Resources	<u>-</u>	<u>721,315</u>	<u>721,315</u>
Net Position:			
Net investment in capital assets	-	104,693	104,693
Restricted - expendable	<u>275,313,617</u>	<u>(1,016,634)</u>	<u>274,296,983</u>
Total net position	<u>275,313,617</u>	<u>(911,941)</u>	<u>274,401,676</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 275,313,617</u>	<u>\$ 6,060,290</u>	<u>\$ 281,373,907</u>

See accompanying independent auditor's report.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Combining Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2024

	Revolving Fund Activity	Non-SRF Activity	Total
Operating Revenues:			
Interest income from loans	\$ 766,092	\$ -	\$ 766,092
Administrative loan fees	-	2,800,057	2,800,057
Total operating revenue	<u>766,092</u>	<u>2,800,057</u>	<u>3,566,149</u>
Operating Expenses:			
Administrative	-	1,451,866	1,451,866
State program management	-	1,576,397	1,576,397
Water protection	-	537,993	537,993
Small systems technical assistance	-	224,403	224,403
Principal forgiveness	19,347,085	-	19,347,085
Total operating expenses	<u>19,347,085</u>	<u>3,790,659</u>	<u>23,137,744</u>
Operating loss	<u>(18,580,993)</u>	<u>(990,602)</u>	<u>(19,571,595)</u>
Nonoperating Revenues:			
State contributions	3,604,000	-	3,604,000
Federal contributions	16,582,159	2,723,323	19,305,482
Other interest income	1,747,395	-	1,747,395
Other income	-	17,925	17,925
Total nonoperating revenues	<u>21,933,554</u>	<u>2,741,248</u>	<u>24,674,802</u>
Change in net position	3,352,561	1,750,646	5,103,207
Net Position:			
Beginning of fiscal year	270,089,079	(790,610)	269,298,469
Transfer from Non-SRF Activity to SRF Activity	<u>1,871,977</u>	<u>(1,871,977)</u>	<u>-</u>
End of fiscal year	<u>\$ 275,313,617</u>	<u>\$ (911,941)</u>	<u>\$ 274,401,676</u>

See accompanying independent auditor's report.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Schedule of Operating Expenses
For the Year Ended June 30, 2024

	<u>State Revolving Fund Activity</u>	<u>Non-SRF Activity</u>	<u>Total</u>
Principal Forgiveness	\$ 19,347,085	\$ -	\$ 19,347,085
Personnel	-	1,787,970	1,787,970
Professional Services	-	897,469	897,469
Services Rendered by Other State Agencies	-	290,749	290,749
Pension Expense	-	213,824	213,824
Repairs and Maintenance	-	210,984	210,984
Travel	-	114,582	114,582
Depreciation	-	82,532	82,532
OPEB Expense	-	36,096	36,096
Training	-	71,813	71,813
Office and Other Supplies	-	33,903	33,903
Telephone	-	25,727	25,727
Rental	-	7,653	7,653
Equipment	-	5,532	5,532
Dues and Subscriptions	-	2,605	2,605
Insurance	-	125	125
Advertising	-	52	52
Miscellaneous	-	9,043	9,043
Total operating expenses	<u>\$ 19,347,085</u>	<u>\$ 3,790,659</u>	<u>\$ 23,137,744</u>

See accompanying independent auditor's report.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

<u>Federal Grantor / Program Title</u>	<u>Assistance Listing Number</u>	<u>Project Number</u>	<u>Total Federal Expenditures</u>	<u>Passed through to Subrecipients</u>
Environmental Protection Agency-- Capitalization Grants for Drinking Water State Revolving Funds	66.468	various	<u>\$ 17,344,958</u>	<u>\$ 17,344,958</u>
Total			<u><u>\$ 17,344,958</u></u>	<u><u>\$ 17,344,958</u></u>

The accompanying notes are an integral part of this schedule.

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Notes to Schedule of Expenditures of Federal Awards
For the Year June 30, 2024

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Drinking Water Treatment Revolving Loan Fund (DWTRLF) under programs of the federal government for the year ended June 30, 2024. 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 DWTRLF, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the DWTRLF.

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, 2024, DWTRLF had a loans receivable balance outstanding of \$25,751,369 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

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

PART II

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

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, Drinking Water Treatment Revolving Loan Fund (DWTRLF), which comprise DWTRLF's statements of financial position as of June 30, 2024, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the DWTRLF's internal control over financial reporting (internal control) as a basis for designing 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 DWTRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DWTRLF'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

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
December 2, 2024

PART III

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



A Hawaii Limited Liability Partnership

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

Independent Auditor's Report

To the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited State of Hawaii, Drinking Water Treatment Revolving Loan Fund's (DWTRLF) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of DWTRLF's major federal programs for the year ended June 30, 2024. DWTRLF's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, DWTRLF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibility for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding DWTRLF's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of DWTRLF's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of DWTRLF's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii
December 2, 2024

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii**

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? __ Yes No
- Significant deficiency(ies) identified? __ Yes None reported
- Noncompliance material to financial statements noted? __ Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? __ Yes No
- Significant deficiency(ies) identified? __ Yes None reported

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

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

Identification of major programs:

Assistance Listing

Number

Name of Federal Program

66.468

Environmental Protection Agency—Capitalization Grants for
Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Department of Health
Drinking Water Treatment Revolving Loan Fund
State of Hawaii

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.