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

**Financial and Compliance Audit**

**June 30, 2025**

**Submitted by**
**The Auditor**
**State of Hawaii**

# Department of Health
# Drinking Water Treatment Revolving Loan Fund
# State of Hawaii
## Index
## June 30, 2025

# PART I
# FINANCIAL SECTION

## Report of Independent Auditors

The Auditor
State of Hawaii

**Opinion**
We have audited the accompanying financial statements of the Department of Health, Drinking Water Treatment Revolving Loan Fund, State of Hawaii ("DWTRLF"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the DWTRLF's basic financial statements as listed in the index.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the DWTRLF as of June 30, 2025, and the respective changes in financial position, and 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 Matters**
As discussed in Note 2, 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 or the State of Hawaii, Department of Health as of June 30, 2025, and the respective changes in its financial position, or its cash flows, for the 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.

As described in Note 2, the DWTRLF adopted the provisions of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, during the year ended June 30, 2025. 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 these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 5 through 9 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, schedule of changes in the net other postemployment benefits (“OPEB”) liability and related ratios, and schedule of OPEB contributions 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 36 through 41 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 statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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. As descrived in Note 2 to the schedule of expenditures of federal awards, the accompanying schedule of federal awards was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The 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 8, 2025 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.

Accuity LLP

Honolulu, Hawaii
December 8, 2025

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, Drinking Water Treatment Revolving Loan Fund, State of Hawaii ("DWTRLF") during the year ended June 30, 2025. Please read it in conjunction with the DWTRLF's financial statements and the related notes to the financial statements (which follow this section).

**Prior Year Restatement Due to New Accounting Principle**

In accordance with the implementation of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, net position was restated as of July 1, 2024.

**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 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* reports the DWTRLF's cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

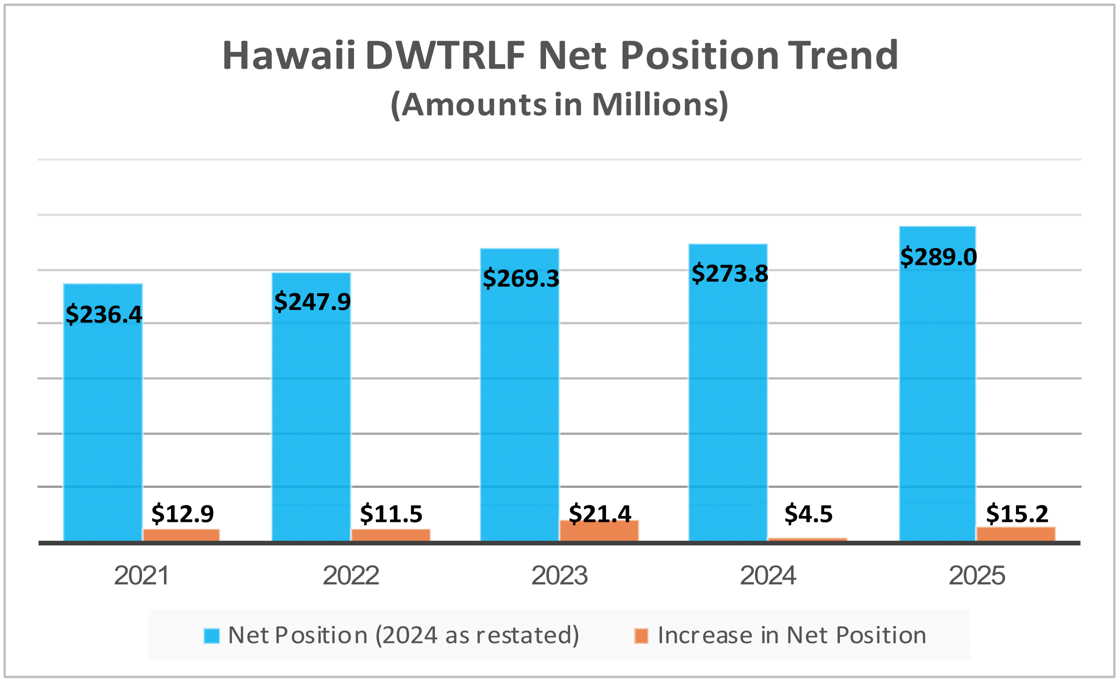
**Notes to Financial Statements**
The Notes to Financial Statements section provides additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to financial statements follow the basic financial statements.

**Financial Highlights**

- The DWTRLF's total net position as restated increased from $273.8 million as of July 1, 2024 to $289.0 million as of June 30, 2025, or by approximately $15.2 million. The total increase in net position was attributed to federal contributions (EPA grants), state matching contributions, interest earnings from loans, and loan fee earnings, which strengthened the financial position of the Fund.

- The increase in current assets of $25.5 million for the year ended June 30, 2025 was mainly due to cash and cash equivalents increasing from principal and interest payments received, state match received, and increased investment interest during the year.

- Loans receivable decreased by $10.5 million. The decrease is due to the increase of principal forgiveness loan payments from the Bipartisan Infrastructure Law state revolving fund grants.



## Financial Analysis

This section includes condensed financial information and analysis:

**State of Hawaii**
**Drinking Water Treatment Revolving Loan Fund**
**Condensed Statements of Net Position**
**As of June 30, 2025 and 2024**
**(Amounts in thousands)**

| | 2025 | 2024 |
|---|---|---|
| Current assets | $ 89,443 | $ 63,966 |
| Capital assets | 162 | 105 |
| Loans receivable, noncurrent | 205,733 | 216,543 |
| Total assets | 295,338 | 280,614 |
| Deferred outflows of resources | 1,123 | 759 |
| Total assets and deferred outflows of resources | 296,461 | 281,373 |
| Current liabilities | 1,005 | 936 |
| Long-term liabilities | 5,679 | 5,315 |
| Total liabilities | 6,684 | 6,251 |
| Deferred inflows of resources | 791 | 721 |
| **Net Position** | | |
| Net investment in capital assets | 162 | 104 |
| Restricted | 288,824 | 274,297 |
| Total net position | 288,986 | 274,401 |
| Total liabilities, deferred inflows of resources, and net position | $ 296,461 | $ 281,373 |

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, 2025, the DWTRLF's total net position was approximately $289.0 million.

At June 30, 2025, in addition to equity in cash and cash equivalents in the State Treasury approximating $69.1 million, the DWTRLF had total loans receivable from county governments and private water systems in the amount of $222.7 million arising from the revolving loan fund program. The DWTRLF had total liabilities of $6.7 million at June 30, 2025. Most of the liabilities are related to the net pension and net OPEB liabilities.

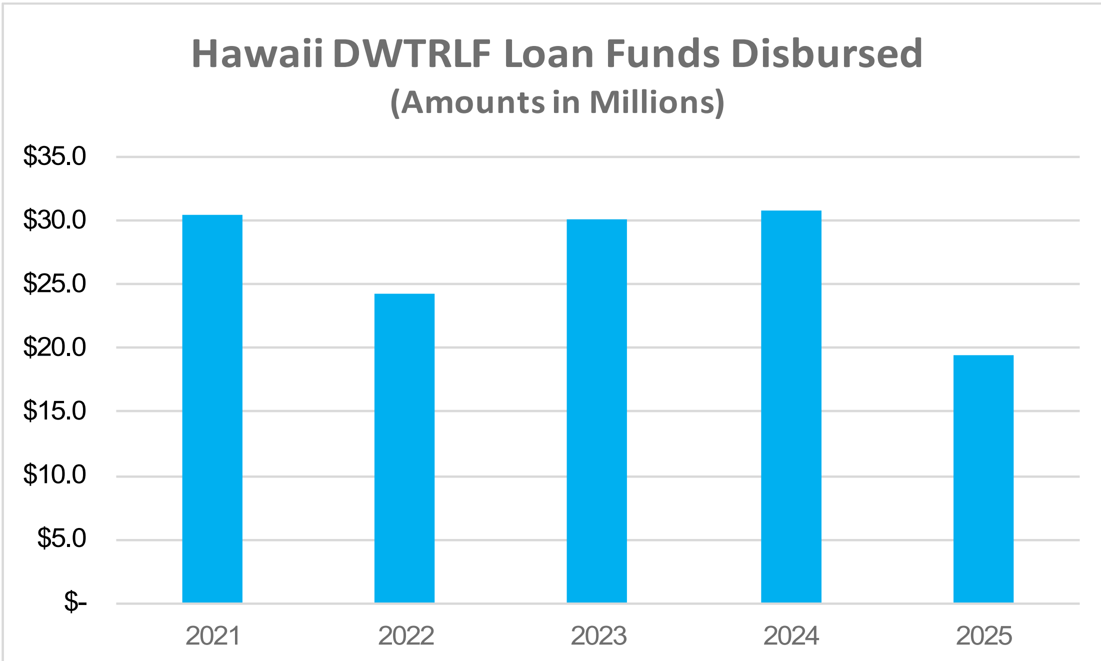
**State of Hawaii**
**Drinking Water Treatment Revolving Loan Fund**
**Condensed Statements of Revenues, Expenses, and Changes in Net Position**
**Years Ended June 30, 2025 and 2024**
**(Amounts in thousands)**

| | 2025 | 2024 |
|---|---|---|
| **Revenues** | | |
| Operating revenues | | |
| Interest earnings from loans | $ 759 | $ 766 |
| Administration loan fee earnings | 2,722 | 2,800 |
| Total operating revenues | 3,481 | 3,566 |
| **Expenses** | | |
| Program and administrative | 5,335 | 3,791 |
| Principal forgiveness | 11,307 | 19,347 |
| Total expenses | 16,642 | 23,138 |
| Operating loss | (13,161) | (19,572) |
| **Nonoperating revenues** | | |
| Federal contributions | 19,809 | 19,305 |
| State contributions and other income | 8,574 | 5,370 |
| Change in net position | 15,222 | 5,103 |
| **Net position** | | |
| Beginning of year, as previously reported | 274,401 | 269,298 |
| Adjustment for change in accounting principle | (637) | - |
| Beginning of year, as restated | 273,764 | 269,298 |
| End of year | $ 288,986 | $ 274,401 |

Operating expenses decreased by $6.5 million from 2024. This is mainly due to principal forgiveness.

Total expenses for fiscal year ("FY") 2025 were $16.6 million, of which $5.3 million was for payroll, operating, and program expenses and $11.3 million for loan principal forgiveness. As compared to FY 2024, total expenses were $23.1 million, of which $3.8 million was for payroll, operating and program expenses and $19.3 million for loan principal forgiveness. Principal forgiveness is provided to assist borrowers with their loans. Operating loss decreased by $6.4 million over FY 2024. 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 2025, DWTRLF received $19.8 million and $6.2 million of federal and state funds, respectively. DWTRLF also disbursed $19.4 million in loan proceeds and collected $18.6 million in principal repayments in 2025. As compared to 2024, the fund collected $19.3 million and $3.6 million in federal and state funds, respectively, disbursed $30.8 million in loan proceeds, and collected $16.1 million in principal payments.




Lastly, the DWTRLF executed a total of eleven loan agreements for $45.9 million during FY 2025.

**Request for Information**

This financial report is designed to provide a general overview of the DWTRLF's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Safe Drinking Water Branch, Environmental Management Division, Hawaii State Department of Health, 2385 Waimano Home Road, Suite 110, Uluakupu Building 4, Pearl City, Hawaii 96782-1400.

**Department of Health**
**Drinking Water Treatment Revolving Loan Fund**
**State of Hawaii**
**Statement of Net Position**
**June 30, 2025**

| | |
|---|---|
| **Assets and Deferred Outflows of Resources** | |
| Current assets | |
| Equity in cash and cash equivalents and investments in State Treasury | $ 69,072,569 |
| Loan fees receivable | 664,428 |
| Accrued interest on loans | 184,941 |
| Due from federal government | 552,367 |
| Due from State Treasury | 1,987,423 |
| Current maturities of loans receivable | 16,981,644 |
| Total current assets | 89,443,372 |
| Loans receivable, net of current maturities | 205,732,960 |
| Capital assets, net of accumulated depreciation | 162,079 |
| Total assets | 295,338,411 |
| Deferred outflows of resources | 1,122,376 |
| Total assets and deferred outflows of resources | $ 296,460,787 |
| **Liabilities, Deferred Inflows of Resources, and Net Position** | |
| Current liabilities | |
| Accounts payable and other accrued liabilities | $ 1,004,725 |
| Accrued compensated absences, net of current portion | 743,281 |
| Net pension liability | 2,891,025 |
| Net other postemployment benefits liability | 2,045,180 |
| Total liabilities | 6,684,211 |
| Deferred inflows of resources | 790,512 |
| Net position | |
| Net investment in capital assets | 162,079 |
| Restricted – expendable | 288,823,985 |
| Total net position | 288,986,064 |
| Total liabilities, deferred inflows of resources, and net position | $ 296,460,787 |

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

**Department of Health**
**Drinking Water Treatment Revolving Loan Fund**
**State of Hawaii**
**Statement of Revenues, Expenses, and Changes in Net Position**
**Year Ended June 30, 2025**

| | |
|---|---|
| **Operating revenues** | |
| Interest income from loans | $ 759,048 |
| Administrative loan fees | 2,722,349 |
| Total operating revenues | 3,481,397 |
| **Operating expenses** | |
| Administrative | 2,155,803 |
| State program management | 2,443,374 |
| Water protection | 591,860 |
| Small systems technical assistance | 144,129 |
| Principal forgiveness | 11,306,635 |
| Total operating expenses | 16,641,801 |
| Operating loss | (13,160,404) |
| **Nonoperating revenues** | |
| State contributions | 6,208,000 |
| Federal contributions | 19,808,622 |
| Other interest income | 2,337,941 |
| Other income | 27,808 |
| Total nonoperating revenues | 28,382,371 |
| Change in net position | 15,221,967 |
| **Net position** | |
| Beginning of year, as previously reported | 274,401,676 |
| Adjustment for change in accounting principle | (637,579) |
| Beginning of the year, as restated | 273,764,097 |
| End of year | $ 288,986,064 |

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

# Department of Health
# Drinking Water Treatment Revolving Loan Fund
# State of Hawaii
## Statement of Cash Flows
## Year Ended June 30, 2025

| | |
|---|---|
| **Cash flows from operating activities** | |
| Payments to employees | $ (3,058,684) |
| Payments to vendors | (2,691,534) |
| Net cash used in operating activities | (5,750,218) |
| **Cash flows from noncapital financing activities** | |
| State contributions | 6,208,000 |
| Federal contributions | 19,845,467 |
| Net cash provided by noncapital financing activities | 26,053,467 |
| **Cash flows from capital and related financing activities** | |
| Purchase of equipment | (101,132) |
| Net cash used in capital and related financing activities | (101,132) |
| **Cash flows from investing activities** | |
| Principal repayments on loans | 18,557,316 |
| Disbursement of loan proceeds | (19,363,766) |
| Interest income from loans | 759,831 |
| Administrative loan fees | 2,744,690 |
| Other interest income | 1,485,201 |
| Net cash provided by investing activities | 4,183,272 |
| Net increase in cash | 24,385,389 |
| | |
| **Equity in cash and cash equivalents and investments in State Treasury** | |
| Beginning of year | 44,687,180 |
| End of year | $ 69,072,569 |
| | |
| **Reconciliation of operating loss to net cash used in operating activities** | |
| Operating loss | $ (13,160,404) |
| Adjustments to reconcile operating loss to net cash used in operating activities | |
| Depreciation expense | 43,746 |
| Principal forgiveness | 11,306,635 |
| Interest income from loans | (759,048) |
| Administrative loan fees | (2,722,349) |
| Non-imposed fringe benefits | 27,808 |
| Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources | |
| Due from federal government/State Treasury | 11,137 |
| Accounts payable and other accrued liabilities | (33,414) |
| Net deferred outflows/inflows of resources | (293,456) |
| Net pension liability | 170,413 |
| Net other postemployment benefits liability | (341,286) |
| Net cash used in operating activities | $ (5,750,218) |

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

## 1. 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 31% of the annual capitalization grant as follows:

1. Up to 15% may be used to provide local assistance and other state programs;

2. Up to 4% may be used to cover the costs of program administration;

3. Up to 10% may be used for Public Water System Supervision ("PWSS") program activities and other initiatives of the SDWA; and

4. Finally, up to 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 thirty years or up to forty years for qualified communities but not to exceed the design life of the project. Prior to July 1, 2015, the first repayment of principal and interest occurred 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.

## 2. Summary of Significant Accounting Policies

### 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 the DWTRLF and do not purport to present the financial position, results of operation or cash flows of the State or DOH.

The accompanying financial statements of the 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").

### 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 nonoperating 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 nonoperating 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 nonoperating revenue. Principal forgiveness for loans is reported as operating expenses.

**Use of Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 net pension and other postemployment benefits ("OPEB") liabilities.

**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, 2025, 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 or funds. 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.

**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.

**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.

**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 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.

**Compensated Absences**

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

**Net Position**

Net position is 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.

The 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 DWTRLF 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.

**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.

**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.

**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.

**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, 2025:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Related to pensions | $ 654,300 | $ 340,803 |
| Related to other postemployment benefits | 468,076 | 449,709 |
| | $ 1,122,376 | $ 790,512 |

**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 State of Hawaii Employees' Retirement System ("ERS"), and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

**Other Postemployment Benefits ("OPEB")**

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

**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.

**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.

**Recently Issued or Adopted Accounting Pronouncements**

***GASB Statement No. 101***

During fiscal year 2025, the DWTRLF implemented GASB Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires recognition of a liability for compensated absences that (1) is attributed to services already rendered; (2) accumulates; and (3) is more likely than not to be used for time off or otherwise paid or settled. Implementation of this Statement resulted in a $637,579 restatement to the Fund's beginning net position as of July 1, 2024.

***GASB Statement No. 102***

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

***GASB Statement No. 103***

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

***GASB Statement No. 104***

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

### 3. Loans Receivable

At June 30, 2025, the DWTRLF had outstanding loans receivable with the following government entities:

| | |
|---|---|
| Seventeen 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 thirty years after project completion. | $ 120,030,277 |
| 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. | 52,438,748 |
| Eighteen 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. | 35,822,830 |
| 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. | 14,371,451 |
| One loan with the Private Water System, Maunaolu Plantation Homeowners Association; due in semiannual payments, including an interest rate of 3.00%, 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. | 51,298 |
| | 222,714,604 |
| Less: Current maturities | (16,981,644) |
| | $ 205,732,960 |

Loans are expected to mature at various dates through 2055. The scheduled principal payments on loans maturing in subsequent years are as follows:

| **Years Ending June 30,** | |
|---|---|
| 2026 | $ 16,981,644 |
| 2027 | 17,076,063 |
| 2028 | 16,758,957 |
| 2029 | 16,944,686 |
| 2030 | 16,552,184 |
| 2031–2035 | 77,345,200 |
| 2036–2040 | 51,134,910 |
| 2041–2045 | 9,643,756 |
| 2046–2050 | 138,599 |
| 2051–2055 | 138,605 |
| | $ 222,714,604 |

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 2025, $11,306,635 in loans were forgiven. Loans and advances were forgiven in accordance with the required conditions.

As of June 30, 2025, the DWTRLF earmarked funds for loans under existing commitment notices to the following borrowers:

| | |
|---|---|
| City and County of Honolulu | $ 41,299,086 |
| County of Maui | 3,750,000 |
| Private Water Systems | 2,933,173 |
| | $ 47,982,259 |

## 4. 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, 2025, the EPA has awarded $405.2 million to the State of Hawaii, of which $280.3 million was drawn down for loans and set asides and the remaining $1.5 million is related to EPA in-kind draws. Total draws including EPA in-kind draws is $281.8 million.

The following summarizes the EPA capitalization grants, amounts drawn on each grant, and the balances available for future loans at June 30, 2025:

| Budget Period | Amount | Total Draws at July 1, 2024 | EPA Draws | Total 2025 Cash Draws | Funds Available |
|---|---|---|---|---|---|
| 07/01/22–06/30/29 | $ 7,008,000 | $ 6,153,908 | $ - | $ 250,368 | $ 603,724 |
| 10/01/23–06/30/28 | 4,938,000 | 4,743,028 | - | 162,782 | 32,190 |
| 10/01/24–06/30/30 | 4,661,000 | - | - | 3,058,849 | 1,602,151 |
| 07/01/22–06/30/29 | 17,992,000 | 16,400,249 | - | 1,241,538 | 350,213 |
| 10/01/23–06/30/30 | 21,055,000 | 7,820,250 | - | 2,656,622 | 10,578,128 |
| 10/01/24–06/30/30 | 22,985,000 | - | - | 244,518 | 22,740,482 |
| 10/01/23–06/30/29 | 7,555,000 | - | - | 2,883,255 | 4,671,745 |
| 10/01/24–06/30/30 | 7,640,000 | - | - | - | 7,640,000 |
| 10/01/24–09/30/31 | 7,640,000 | - | - | - | 7,640,000 |
| 10/01/23–06/30/29 | 19,588,640 | - | - | 3,086,265 | 16,502,375 |
| 10/01/24–06/30/29 | 28,650,000 | - | - | - | 28,650,000 |
| 10/01/24–06/30/31 | 28,650,000 | - | - | 6,261,270 | 22,388,730 |
| | $ 178,362,640 | $ 35,117,435 | $ - | $ 19,845,467 | $ 123,399,738 |

The State is required to match 20% of the estimated amount of the grant from the EPA and does so in the year that the capitalization grant is awarded. For the FY 2022–2023 Bipartisan Infrastructure Law General Supplemental grant, the required State match is reduced from 20% to 10%. Through June 30, 2025, the Fund was in compliance with the State matching requirement. The required State match through June 30, 2025 approximated $57.2 million, of which approximately $51.7 million has been utilized and $5.5 million was available to be loaned out at June 30, 2025.

## 5. Capital Assets

Capital asset activity for the year ended June 30, 2025 was as follows:

| | Balance at July 1, 2024 | Additions | Retirements/ Disposals | Balance at June 30, 2025 |
|---|---|---|---|---|
| Equipment | $ 2,216,763 | $ 101,132 | $ - | $ 2,317,895 |
| Intangible assets – software | 648,899 | - | - | 648,899 |
| Accumulated depreciation | (2,760,969) | (43,746) | - | (2,804,715) |
| | $ 104,693 | $ 57,386 | $ - | $ 162,079 |

**6. Other Liabilities**

The changes to the other liabilities during 2025 were as follows:

| | Balance at July 1, 2024 (As restated) | Additions* | Deductions | Balance at June 30, 2025 | Current Portion |
|---|---|---|---|---|---|
| Accrued compensated absences | $ 923,757 | $ 46,911 | $ - | $ 970,668 | $ 227,387 |
| Net pension liability | 2,720,612 | 434,350 | (263,937) | 2,891,025 | - |
| Net other postemployment benefits liability | 2,386,466 | - | (341,286) | 2,045,180 | - |
| | $ 6,030,835 | $ 481,261 | $ (605,223) | $ 5,906,873 | $ 227,387 |

* Compensated absences reported as net additions.

**7. Employee Benefit Plans**

**Pension Plan**

***Plan Description***
Generally, all full-time employees of the State and counties are required to be members of the Employees' Retirement System (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 classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

Noncontributory Class

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

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

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

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

Contributory Class for Members Hired Prior to July 1, 2012

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

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

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

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

Contributory Class for Members Hired After June 30, 2012

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

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

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

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

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

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

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

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

***Contributions***
Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. Contributions to the pension plan from the DWTRLF were approximately $423,000 for the year ended June 30, 2025.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% 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, 2025, the DWTRLF reported a liability of approximately $2.9 million for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. The 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, 2024 and 2023, the DWTRLF's proportion of the State's share was 0.04% and 0.03%, respectively.

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

For the year ended June 30, 2025, the DWTRLF recognized pension expense of approximately $323,000. At June 30, 2025, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net differences between expected and actual experience | $ 134,816 | $ (28,475) |
| Changes in assumptions | 52,875 | (21,359) |
| Net difference between projected and actual earnings on pension plan investments | - | (285,781) |
| Changes in proportion and difference between DWTRLF contributions and proportionate share of contributions | 43,130 | (5,188) |
| DWTRLF contributions subsequent to the measurement date | 423,479 | - |
| | $ 654,300 | $ (340,803) |

At June 30, 2025, the $423,479 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 year ending June 30, 2026.

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

| **Years ending June 30,** | |
|---|---|
| 2026 | $ (76,320) |
| 2027 | (73,994) |
| 2028 | 30,371 |
| 2029 | 7,101 |
| 2030 | 2,860 |
| | $ (109,982) |

***Actuarial Assumptions***

The total pension liability in the June 30, 2024 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.

The rate of returns based on ERS's investment consultant as of June 30, 2024 is summarized in the following table:

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

***Discount Rate***

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

***Sensitivity of the 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 (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---|---|---|
| DWTRLF's proportionate share of the net pension liability | $ 3,861,511 | $ 2,891,025 | $ 2,087,172 |

***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 annual comprehensive financial report ("ACFR") contains further disclosures and required supplementary information related to the State's proportionate share of the net pension liability and employer pension contributions.

***Payables to the Pension Plan***

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

**Deferred Compensation Plan**

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

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

**Postemployment Healthcare and Life Insurance Benefits**

***Plan Description***
The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, 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 201 Merchant Street, Suite 1700, Honolulu, Hawaii 96813.

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

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

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

***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 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 approximated $403,000 for the year ended June 30, 2025. The employer is required to make all contributions for members.

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

At June 30, 2025, the DWTRLF reported a liability of approximately $2.0 million for its proportionate share of net OPEB liability of the State. The net OPEB liability was measured as of July 1, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The 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, 2024 and 2023, the DWTRLF's proportion of the State's share was 0.03% and 0.01%, respectively.

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

For the year ended June 30, 2025, the DWTRLF recognized OPEB expense of approximately $39,000. At June 30, 2025, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ (417,561) |
| Changes in assumptions | 16,813 | (32,148) |
| Net difference between projected and actual earnings on investments | 48,143 | - |
| DWTRLF contributions subsequent to the measurement date | 403,120 | - |
| | $ 468,076 | $ (449,709) |

At June 30, 2025, the $403,120 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 year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| **Years ending June 30,** | |
|---|---|
| 2026 | $ (124,635) |
| 2027 | (93,822) |
| 2028 | (79,066) |
| 2029 | (45,840) |
| 2030 | (41,390) |
| | $ (384,753) |

***Actuarial Assumptions***

The total OPEB liability in the July 1, 2024 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 6.20%, declining to an ultimate rate of 4.25% after 20 years |
| HMO ** | Initial rate of 6.20%, declining to an ultimate rate of 4.25% after 20 years |
| Contribution | Initial rate of 5.00%, declining to an ultimate rate of 4.25% after 20 years |
| Dental | 4.00% |
| Vision | 2.50% |
| Life insurance | 0.00% |

* Blended rates for medical and prescription drugs.
** Includes prescription drug assumptions.

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

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

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

***Single Discount Rate***

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

***OPEB Plan Fiduciary Net Position***

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

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

***Changes in Net OPEB Liability***

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2024.

| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
|---|---|---|---|
| **Balance at June 30, 2024** | $ 3,300,361 | $ 913,895 | $ 2,386,466 |
| Service cost | 71,432 | - | 71,432 |
| Interest on the total OPEB liability | 242,872 | - | 242,872 |
| Difference between expected and actual experience | (271,861) | - | (271,861) |
| Employer contributions | - | 252,305 | (252,305) |
| Net investment income | - | 131,569 | (131,569) |
| Benefit payments | (124,743) | (124,743) | - |
| Administrative expense | - | (127) | 127 |
| Other | - | (18) | 18 |
| Net changes | (82,300) | 258,986 | (341,286) |
| **Balance at June 30, 2025** | $ 3,218,061 | $ 1,172,881 | $ 2,045,180 |

***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%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---|---|---|
| DWTRLF's proportionate share of the net OPEB liability | $ 2,636,819 | $ 2,045,180 | $ 1,569,397 |

***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 | $ 1,544,655 | $ 2,045,180 | $ 2,682,608 |

***Payables to the OPEB Plan***

There was no contributions payable to EUTF as of June 30, 2025.

***Required Supplementary Information and Disclosures***

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

## 8. 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
### Year Ended June 30, 2025

| | |
|---|---|
| **Receipts** | |
| Principal repayment on loans | $ 18,557,316 |
| Interest income from loans | 759,831 |
| State contributions | 6,208,000 |
| Federal contributions | 19,845,467 |
| Administrative loan fees | 2,744,690 |
| Other interest income | 1,485,201 |
| Total receipts | 49,600,505 |
| **Disbursements** | |
| Disbursement of loan proceeds | 19,363,766 |
| Administrative | 2,624,587 |
| State program management | 2,351,331 |
| Water protection | 634,959 |
| Small systems technical assistance | 240,473 |
| Total disbursements | 25,215,116 |
| Excess of receipts over disbursements | 24,385,389 |
| **Equity in cash and cash equivalents and investments in State Treasury** | |
| Beginning of year | 44,687,180 |
| End of year | $ 69,072,569 |

See accompanying report of independent auditors.

# Department of Health
# Drinking Water Treatment Revolving Loan Fund
# State of Hawaii
## Combining Statement of Net Position
## June 30, 2025

| | State Revolving Fund Activity | Non-SRF Activity | Total |
|---|---|---|---|
| **Assets and Deferred Outflows of Resources** | | | |
| Current assets | | | |
| Equity in cash and cash equivalents and investments in State Treasury | $ 65,970,875 | $ 3,101,694 | $ 69,072,569 |
| Loan fees receivable | - | 664,428 | 664,428 |
| Accrued interest on loans | 184,941 | - | 184,941 |
| Due from federal government | - | 552,367 | 552,367 |
| Due from State Treasury | 1,940,030 | 47,393 | 1,987,423 |
| Current maturities of loans receivable | 16,981,644 | - | 16,981,644 |
| Total current assets | 85,077,490 | 4,365,882 | 89,443,372 |
| Loans receivable, net of current maturities | 205,732,960 | - | 205,732,960 |
| Capital assets, net of accumulated depreciation | - | 162,079 | 162,079 |
| Total assets | 290,810,450 | 4,527,961 | 295,338,411 |
| Deferred outflows of resources | - | 1,122,376 | 1,122,376 |
| Total assets and deferred outflows of resources | $ 290,810,450 | $ 5,650,337 | $ 296,460,787 |
| **Liabilities, Deferred Inflows of Resources, and Net Position** | | | |
| Current liabilities | | | |
| Accounts payable and other accrued liabilities | $ - | $ 1,004,725 | $ 1,004,725 |
| Accrued compensated absences, net of current portion | - | 743,281 | 743,281 |
| Net pension liability | - | 2,891,025 | 2,891,025 |
| Net other postemployment benefits liability | - | 2,045,180 | 2,045,180 |
| Total liabilities | - | 6,684,211 | 6,684,211 |
| Deferred inflows of resources | - | 790,512 | 790,512 |
| Net position | | | |
| Net investment in capital assets | - | 162,079 | 162,079 |
| Restricted – expendable | 290,810,450 | (1,986,465) | 288,823,985 |
| Total net position | 290,810,450 | (1,824,386) | 288,986,064 |
| Total liabilities, deferred inflows of resources, and net position | $ 290,810,450 | $ 5,650,337 | $ 296,460,787 |

See accompanying report of independent auditors.

# Department of Health
# Drinking Water Treatment Revolving Loan Fund
# State of Hawaii
## Combining Statement of Revenues, Expenses, and Changes in Net Position
## Year Ended June 30, 2025

| | State Revolving Fund Activity | Non-SRF Activity | Total |
|---|---|---|---|
| **Operating revenues** | | | |
| Interest income from loans | $ 759,048 | $ - | $ 759,048 |
| Administrative loan fees | - | 2,722,349 | 2,722,349 |
| Total operating revenues | 759,048 | 2,722,349 | 3,481,397 |
| **Operating expenses** | | | |
| Administrative | - | 2,155,803 | 2,155,803 |
| State program management | - | 2,443,374 | 2,443,374 |
| Water protection | - | 591,860 | 591,860 |
| Small systems technical assistance | - | 144,129 | 144,129 |
| Principal forgiveness | 11,306,635 | - | 11,306,635 |
| Total operating expenses | 11,306,635 | 5,335,166 | 16,641,801 |
| Operating loss | (10,547,587) | (2,612,817) | (13,160,404) |
| **Nonoperating revenues** | | | |
| State contributions | 6,208,000 | - | 6,208,000 |
| Federal contributions | 15,391,426 | 4,417,196 | 19,808,622 |
| Other interest income | 2,337,941 | - | 2,337,941 |
| Other income | - | 27,808 | 27,808 |
| Total nonoperating revenues | 23,937,367 | 4,445,004 | 28,382,371 |
| Transfer from non-SRF activity to SRF activity | 2,107,053 | (2,107,053) | - |
| Change in net position | 15,496,833 | (274,866) | 15,221,967 |
| **Net position** | | | |
| Beginning of year, as previously reported | 275,313,617 | (911,941) | 274,401,676 |
| Adjustment for change in accounting principle | - | (637,579) | (637,579) |
| Beginning of year, as restated | 275,313,617 | (1,549,520) | 273,764,097 |
| End of year | $ 290,810,450 | $ (1,824,386) | $ 288,986,064 |

See accompanying report of independent auditors.

# Department of Health
# Drinking Water Treatment Revolving Loan Fund
# State of Hawaii
## Combining Schedule of Operating Expenses
## Year Ended June 30, 2025

| | State Revolving Fund Activity | Non-SRF Activity | Total |
|---|---|---|---|
| Principal forgiveness | $ 11,306,635 | $ - | $ 11,306,635 |
| Personnel | - | 2,277,902 | 2,277,902 |
| Professional services | - | 1,415,041 | 1,415,041 |
| Services rendered by other State agencies | - | 489,551 | 489,551 |
| Pension expense | - | 323,296 | 323,296 |
| Repairs and maintenance | - | 297,239 | 297,239 |
| Travel | - | 190,675 | 190,675 |
| Training | - | 120,433 | 120,433 |
| Office and other supplies | - | 46,543 | 46,543 |
| Depreciation | - | 43,746 | 43,746 |
| OPEB expense | - | 38,975 | 38,975 |
| Telephone | - | 33,372 | 33,372 |
| Equipment | - | 17,642 | 17,642 |
| Rental | - | 17,218 | 17,218 |
| Miscellaneous | - | 23,533 | 23,533 |
| Total operating expenses | $ 11,306,635 | $ 5,335,166 | $ 16,641,801 |

See accompanying report of independent auditors.

# Department of Health
# Drinking Water Treatment Revolving Loan Fund
# State of Hawaii
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2025

| Federal Grantor/Program Title | Federal Assistance Listing Number | Project Number | Total Federal Expenditures | Passed Through to Subrecipients |
|---|---|---|---|---|
| **U.S. Environmental Protection Agency** | | | | |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | Various | $ 18,772,549 | $ 15,289,640 |
| Total | | | $ 18,772,549 | $ 15,289,640 |

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

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Department of Health, Drinking Water Treatment Revolving Loan Fund, State of Hawaii ("DWTRLF") under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the DWTRLF, it is not intended to and does not present the financial position, changes in net position, 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, 2025, the DWTRLF had a loans receivable balance outstanding of approximately $15.9 million 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**

The DWTRLF has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

# PART II
# COMPLIANCE AND INTERNAL CONTROL

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

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of Health, Drinking Water Treatment Revolving Loan Fund, State of Hawaii ("DWTRLF"), which comprise the DWTRLF's statements of financial position as of June 30, 2025, 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 8 2025.

**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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 DWTRLF'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 DWTRLF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
December 8, 2025

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

The Auditor
State of Hawaii

### Report on Compliance for Each Major Federal Program

***Opinion on Each Major Federal Program***

We have audited the Department of Health, Drinking Water Treatment Revolving Loan Fund, State of Hawaii's ("DWTRLF's") 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 DWTRLF's major federal program for the year ended June 30, 2025. DWTRLF's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the DWTRLF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

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

We are required to be independent of the 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 the 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.

***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the 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 generally accepted auditing standards,

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*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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding 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.

**Other Matters**
The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2025-001. Our opinion on each major federal program is not modified with respect to these matters.

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

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2025-001 to be a significant deficiency.

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

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

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

Accuity LLP

Honolulu, Hawaii
December 8, 2025

# PART III
# SCHEDULE OF FINDINGS
# AND QUESTIONED COSTS

## Section I – Summary of Auditors' Results

**Financial Statements**

| | | |
|---|---|---|
| Type of auditors' report issued | **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 auditors' report issued on compliance for major programs | **Unmodified** | |
| Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? | _ Yes | √ No |

Identification of major program(s)

| Federal Assistance Listing Number | Name of Federal Program or Cluster |
|---|---|
| | **U.S. Environmental Protection Agency** |
| 66.468 | 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 |

**Section II – Financial Statement Findings**

None noted.

### Section III – Federal Award Findings and Questioned Costs

| | | |
|---|---|---|
| **Finding No. 2025-001:** | **Procurement and Suspension and Debarment (Significant Deficiency)** | **$ -** |
| **Federal Agency:** | U.S. Environmental Protection Agency | |
| **AL Number and Title:** | 66.468 – Drinking Water State Revolving Fund | |
| **Award Number and Award Year:** | 4D-97T15201-1 2024 | |
| **Repeat Finding?** | No | |

**Condition**
During our audit, we examined a non-statistical sample of one contract and noted the verification of the contractor's debarment and suspension status via SAM.gov was not performed prior to execution of the contract.

**Criteria**
Per 2 CFR 180.25(a), each Federal agency's implementing regulation must establish policies and procedures for that Federal agency's non-procurement debarment and suspension programs and activities consistent with this guidance. When adopted by a Federal agency, the provisions of the guidance have a regulatory effect on that Federal agency's programs and activities.

Per 2 CFR 200.214, the regulations in 2 CFR part 180 restrict making Federal awards, subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from receiving or participating in Federal awards.

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

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

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

JOSH GREEN, M.D.
GOVERNOR OF HAWAIʻI
KE KIAʻĀINA O KA MOKUʻĀINA ʻO HAWAIʻI

KENNETH S. FINK, MD, MGA, MPH
DIRECTOR OF HEALTH
KA LUNA HOʻOKELE

**STATE OF HAWAIʻI**
**DEPARTMENT OF HEALTH**
**KA ʻOIHANA OLAKINO**
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

December 8, 2025

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

Subject: Response to Draft Report "State of Hawaii, Drinking Water Treatment Revolving Loan Fund Financial Statements for Fiscal Year Ended June 30, 2025."

Dear Mr. Kondo,

Attached are the Department of Health's comments of the audit findings for the above-mentioned audit of the Drinking Water Treatment Revolving Loan Fund.

We appreciate the opportunity to comment on the report.

Sincerely,

Gaudencio C. Lopez

GAUDENCIO C. LOPEZ, P.E., CHIEF
Safe Drinking Water Branch

Attachment

## Drinking Water Treatment Revolving Loan Fund
## Federal Award Finding and Questioned Costs

**Finding No. 2025-001** **Procurement and Suspension and Debarment (Significant Deficiency)**

**Condition**

During our audit, we examined a non-statistical sample of one contract and noted the verification of the contractor's debarment and suspension status via SAM.gov was not performed prior to execution of the contract.

**Criteria**

Per 2 CFR 180.25(a), each Federal agency's implementing regulation must establish policies and procedures for that Federal agency's non-procurement debarment and suspension programs and activities consistent with this guidance. When adopted by a Federal agency, the provisions of the guidance have a regulatory effect on that Federal agency's programs and activities.

Per 2 CFR 200.214, the regulations in 2 CFR part 180 restrict making Federal awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from receiving or participating in Federal awards.

**Effect**

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

**Corrective Action Plan:**

The program has notified personnel involved in the procurement of contracts to ensure that the vendor is registered in sam.gov if contract is funded by federal funds. Debarment and suspension check documentation will be kept in the contract file.

**Implementation Date:**

December 1, 2025

**Responding Official:**

Gaudencio Lopez, Safe Drinking Water Branch Chief

## Summary Schedule of Prior Audit Findings
**Year Ended June 30, 2025**

There were no prior year findings or questioned costs.