

**REPORT TO THE TWENTY-EIGHTH LEGISLATURE
STATE OF HAWAII
2015**

DRINKING WATER TREATMENT REVOLVING LOAN FUND

**PURSUANT TO SECTION 340E-33
HAWAII REVISED STATUTES**

**RELATING TO THE
DRINKING WATER TREATMENT REVOLVING LOAN FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL MANAGEMENT DIVISION
SAFE DRINKING WATER BRANCH
AND
ENVIRONMENTAL RESOURCES OFFICE**

NOVEMBER 2014

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OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

This annual report is submitted to the State of Hawaii Legislature pursuant to Section 340E-33 of the Hawaii Revised Statutes. It covers the reporting period State Fiscal Year (SFY) July 1, 2013 to June 30, 2014 and describes how the Hawaii Drinking Water Treatment Revolving Loan Fund (DWTRLF) met its goals and objectives as identified in the Intended Use Plan (IUP) and Capitalization Grant Application. This report also discusses the sources and uses of the funds during SFY 2014.

B. PROGRAM SUMMARY

Nationally, the Drinking Water State Revolving Fund (DWSRF) program was established under the Safe Drinking Water Act (SDWA) Amendments of 1996, signed by President Clinton on August 6, 1996. This authorized the EPA to award capitalization grants to states.

The State of Hawaii, Drinking Water Treatment Revolving Loan Fund (DWTRLF) program was established by the 1997 State Legislature as the result of the 1996 Federal amendments to the Safe Drinking Water Act. This allowed the state to accept the capitalization grants from the EPA.

Hawaii's program provides low-interest loans to its four County water departments for the construction of drinking water infrastructure projects. These projects help to achieve or maintain compliance with drinking water standards, improve and expand their drinking water infrastructure, and help protect the public's health and the environment of Hawaii.

C. MAJOR INITIATIVES

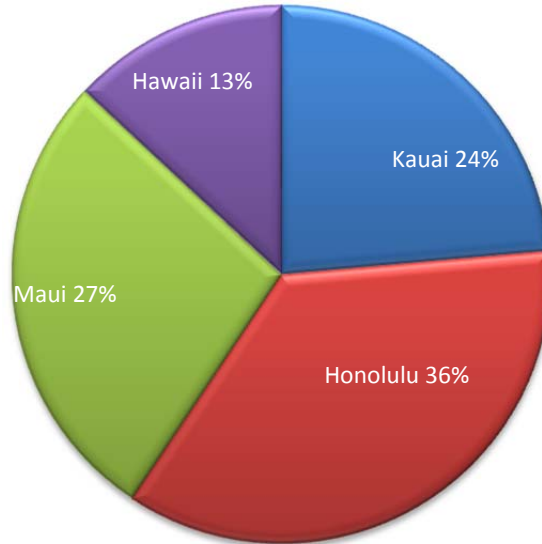
From SFY 1997 through SFY 2014 the DWSRF has issued \$164,691,839.01 of final loans to the state's four county water departments. The table below lists the cumulative loan amounts issued to each county.

County	Cumulative Final Loan Amount (\$)
Kauai	38,040,657.18
Honolulu	59,638,125.44
Maui	45,691,854.65
Hawaii	21,321,201.74
Total	164,691,839.01

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The chart below illustrates the percentage of loans issued to each county.

Percent of Final Loan Amounts by County



Final Loan Agreements executed in SFY 2014

Borrower	Project Name	Project Location	Loan Amount (\$)
County of Maui, Department of Water Supply	Wailuku Well Development	Senate District 5 House District 8	2,000,000.00
County of Maui, Department of Water Supply	Maui Meadows Booster Pump Station #18 Improvements	Senate District 6 House District 11	1,100,000.00
County of Maui, Department of Water Supply	Paia-Kuau Water System Improvements	Senate District 7 House District 13	815,447.00
County of Maui, Department of Water Supply	Olinda Water Treatment Plant - Relining of the 8.5 MG Sedimentation Basin	Senate District 7 House District 13	1,492,502.00
County of Maui, Department of Water Supply	Piiholo Water Treatment Plant Improvements - Organic Carbon Reduction	Senate District 7 House District 12	4,960,519.00
City and County of Honolulu, Board of Water Supply	Foster Village Water System Improvements, Part III	Senate District 15 House District 31	1,382,569.00
City and County of Honolulu, Board of Water Supply	Mapunapuna Water System Improvements, Part I	Senate District 15 House District 32	5,727,070.00

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Borrower	Project Name	Project Location	Loan Amount (\$)
City and County of Honolulu, Board of Water Supply	Woodlawn Drive 8-Inch Main	Senate District 11 House District 23	3,720,373.00
City and County of Honolulu, Board of Water Supply	Kamehameha Highway 16-Inch and 8-Inch Mains (Heeia)	Senate District 24 House District 48	6,253,646.00
City and County of Honolulu, Board of Water Supply	Kapiolani Boulevard 12-Inch Main	Senate District 12 House District 22	5,472,724.00
Total Final Loan Agreements			32,924,850.00

Meeting Funding Requirements

1. State Matching Funds

Required state matching funds equal to 20 percent of the total capitalization grant were provided by the Hawaii State Legislature.

2. Commitment of Funds

The requirement to commit funds in an amount equal to the amount of each Capitalization Grant payment (Capitalization Grant less set-aside amounts) of \$7,971,000.00 and the accompanying State Match that is deposited into the Loan Fund.

This requirement was met with the execution of \$32,924,850.00 in final loan agreements.

3. Federal Funding Accountability and Transparency Act (FFATA)

The FFATA requires the reporting of funded projects whose loan amounts add up to the amount of the capitalization grant.

This requirement was met with the projects listed in the table below.

FFATA Project Name	FFATA Amount (\$)
Kamehameha Highway 16-Inch and 8-Inch Mains (Heeia)	6,253,646.00
Mapunapuna Water System Improvements, Part I	1,717,354.00
Total	7,971,000.00

4. Additional Subsidy

In SFY 2014, \$4,504,500.00 of additional subsidy has been awarded in final loan agreements spanning across the requirements of the FFY 2010 and FFY 2011 capitalization grants. Approximately, \$1,684,200.00 of additional subsidy will be awarded to *PLH-39, Lihue Baseyard Improvements for the Department of Water* project to meet the additional subsidy requirement for

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the FFY 2013 capitalization grant. The minimum additional subsidy requirements for the FFY 2010 and FFY 2012 capitalization grants will be achieved with the *Kalihi Water System Improvements, Part III* project, which will receive \$750,000.00 of additional subsidy.

5. Reporting Requirements

Information on projects with executed final loan agreements has been entered into the DWSRF Project Benefits Reporting (PBR) system at <https://www.nbwaterapps.net/UserLogin/>.

6. Minority Business Enterprises (MBE) / Woman Business Enterprises (WBE)

As part of the program's compliance with the federal SRF requirements, form 5700 52A (*U.S. Environmental Protection Agency MBE/WBE Utilization under Federal Grants, Cooperative Agreements, and Interagency Agreements*) is now submitted directly to EPA on a semi-annual basis.

All forms are signed by the program's authorized representative and are on file with EPA.

7. Other Federal Requirements

The program continues compliance with other requirements to:

- a. Ensure borrowers comply with Davis-Bacon requirements.
- b. Maintain a cash draw ratio of 82.56% federal funds to 17.44% state match funds.
- c. Continue the use of Generally Accepted Government Accounting Standards in accounting, audit, and fiscal procedures.

D. PROGRAM AND SET-ASIDE ACTIVITIES

Sections 1452(g)(2) and 1452(k) of the Safe Drinking Water Act allows each state to set-aside up to 31 percent of its federal capitalization grant to support various drinking water program activities including administration, State program management, technical assistance and other special activities. The following activities were conducted in SFY 2014 under these set-asides.

Administrative Loan Fees and Administrative Cost (4%)

The state does not contribute any money toward administering the DWTRLF Program and its drinking water-related programs. Furthermore, federal law requires that the DWTRLF program be operated in perpetuity. Thus, to pay for employee salaries and benefits and to comply with the federal law, the Department of Health (DOH) implemented a loan fee program on May 17, 2000.

For SFY 2014, the DWTRLF program collected \$647,299.16 in administration loan fee - program income and \$1,385,718.66 in administration loan fee - non-program income. In addition, the program can use up to four percent (4%) of each year's federal capitalization grant to pay for administrative costs.

Small Systems Technical Assistance (2%)

No activities to report under this set-aside.

State Program Management (10%)

The Safe Drinking Water Act Amendments of 1996 provided that up to 10 percent of the DWSRF Capitalization Grant could be used for State Program Management. These funds were generally delegated to support four major activities.

1. Source Water Protection Program

As SDWB moves from source water assessments to source water protection, efforts have been focused on educating water systems, the public, and other applicable organizations on development and implementation of protection strategies and plans. This year, the SDWB continued to meet with water systems and government agencies on the result of the assessments and plans for source water protection. Source water assessments are also being conducted on new drinking water sources as they proceed through the new source approval and engineering report process.

2. Public Water System Supervision Program

The Hawaii Public Water System Supervision Program made substantial progress in improving our sanitary survey compliance. The SDWB completed 27 sanitary surveys of public water systems throughout the state during SFY 2014. These surveys contribute significantly to strengthening the protection of drinking water quality. The SDWB Engineering and Compliance sections are now fully staffed as of June 2014 and will likely be doing all surveys in house.

The program continued to provide certification reviews for laboratories performing safe drinking water analyses. Approximately 11 microbiological laboratories and 36 chemistry laboratories hold certifications for one or more drinking water contaminants.

Finally, the SDWB continues to successfully implement the terms of the many drinking water rules for which it either has primary enforcement authority (primacy) or intends to apply for primacy. These include: the Total Coliform Rule, the Ground Water Rule, the Surface Water Treatment Rule, the LT1 and LT2 Enhanced Surface Water Treatment Rules, the Phase 1 Volatile Organic Chemical Rule, Phase II SOC/IOC Rule, the Phase V SOC/IOC Rule, Lead and Copper Rule, including Minor and Short-Term Revisions, Revised Public Notification Rule, Revised Radionuclides Rule, Consumer Confidence Rule, Filter Backwash Recycling Rule, Stage 1 and Stage 2 Disinfectant/Disinfection By-Products Rules, Arsenic and Clarifications to Compliance and New Source Contaminants Monitoring Final Rule, and more.

3. Capacity Development Program

The program's capacity development program efforts for SFY 2014 were concentrated in the Technical Assistance Contract described in the Local Assistance and Other State Programs (15%) discussion of this report.

4. Operator Certification Program

The SDWB continues to administer an operator certification program for water treatment plant operators and distribution system operators.

From July 1, 2013 to June 30, 2014, the Board of Certification of Public Water System Operators met four times. During this period:

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- 80 Applications were received for certification review.
- 10 Reciprocal certifications were issued.
- 29 Persons were tested for the WTPO certification (Examinations were held on July 23, 2013 and January 28, 2014).
- 12 Persons passed the WTPO certification examination.
- 79 Persons were tested for the DSO certification (Examinations were held on July 23, 2013, October 22, 2013 and April 22, 2014).
- 38 Persons passed the DSO certification examination.
- 220 WTPO certifications were active as of June 30, 2014.
- 515 DSO certifications were active as of June 30, 2014.
- 20 Public water systems required to have level 1 certified water treatment plant operators by the level of the plant.
- 10 Public water systems required to have level 2 certified water treatment plant operators by the level of the plant.
- 5 Public water systems required to have level 4 certified water treatment plant operators by the level of the plant.
- 129 Public water systems with at least one distribution system operator certified at the level of the distribution system of the water system.

Local Assistance and Other State Programs (15%)

1. Wellhead Protection Program

The SDWB has revised Hawaii's Wellhead Protection Program (WHP) Plan to include a Financial Assistance Program (FAP) that will allow the SDWB to provide funding/grants to public water systems for water protection planning and implementation protection projects and activities.

In the Spring 2008 and 2011, notices were sent to all qualifying water systems that WHP-FAP grant funding was available for protection projects. Grants have been awarded to the following:

- a. Kauai Department of Water (KDOW) to develop a statewide Project WET (Water Education for Teachers) program for source water protection
- b. Hawaii Department of Water Supply (HDWS) to prepare protection plans and implement protection activities
- c. Maui Department of Water Supply (MDWS) to implement protection plans and activities for the islands of Maui, Molokai, and Lanai, as well as fund watershed protection activities on Maui
- d. West Maui Land Company (WMLC) to prepare protection plans and implement protection activities for the Olowalu and Mahanalui Nui water systems
- e. County of Hawaii – Finance to assist with funding for on-site disposal system (OSDS) connection within the HDWS Haina Water System's Source Water Protection (SWP) Area to the Honokaa Sewer Project
- f. Hawaiian Beaches Water Company (HBWC) to prepare protection plans and implement protection activities
- g. Hawaiian Shores Community Association (HSCA) to prepare protection plans and implement protection activities

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DWSRF 15% WHP Set-Aside funding has also been utilized to fund:

- a. CLERS Model – a leaching model for contaminants to assist in determining the potential risk of contaminants to groundwater
- b. Education activities on water quantity and quality/protection issues for public water systems, water industry professionals, and stakeholders

Future funding will be utilized to:

- a. Fund Honolulu Board of Water Supply (HBWS) to implement groundwater protection projects as part of their Watershed Management Plans
- b. Work with the Department of Land and Natural Resources – Commission on Water Resources Management (DLNR-CWRM) on identifying abandoned wells within SWP Areas and assist in the sealing and closure of these wells
- c. Work with the Department of Land and Natural Resources – Division of Forestry and Wildlife on possible funding of watershed protection projects that impact drinking water sources
- d. Work with public water systems on protection planning and implementation activities
- e. Evaluating the impact of reused/recycled wastewater on water resources

2. Circuit Rider Program

The SDWB issued a contract to provide training to small water systems using some 2% set-aside and mostly the 15% set-aside starting in October 2009 and continuing through September 2014. This contract is more commonly known as the “Circuit Rider Program.” Under the terms of this contract, the contractor (Rural Community Assistance Corporation) has been meeting with the staff of small, publicly- and privately-owned public water systems and providing hands-on training in technical, financial, and managerial areas.

The Circuit Rider Program also implements a “hot line” via either telephone or e-mail to provide operators with an avenue to obtain help when needed. The Circuit Rider continues to demonstrate positive results with participating water systems on all islands. More water system managers and operators are beginning to ask for assistance on “how to” operate and manage their systems. Clearly, going out to offer help without the risk of enforcement has been a welcomed approach to providing technical assistance.

The Circuit Rider Program success will be continued through the issuance of a subsequent contract for \$741,600 for the period starting October 1, 2014 through September 30, 2017.

These contracts will use \$1,104,771.00 and \$741,600.00, respectively from this fund.

3. Continuing Education Training Program for Water System Operators

The SDWB issued a contract to develop a self-sustaining continuing education training program for water system operators using the 15% set-aside starting in October 2012 and continuing through September 2015. Under the terms of this contract, the contractor (Hawaii Rural Water Association) provides a minimum of 300 hours of training to certified water system operators in Hawaii and develops the program to be self-sustaining after three years. The program is gaining momentum and is on target to be self-sufficient by the end of three years with great reviews of the trainers and classroom content by the participants and water purveyor managers.

This contract will use \$600,415.20 from this fund.

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E. GOALS AND ACCOMPLISHMENTS

Section 1452(b) of the Safe Drinking Water Act requires the State to prepare an Intended Use Plan (IUP), identifying the uses of funds in the DWSRF and describing how those uses support the goals of the DWSRF program. The IUP is a requirement in the State’s SRF Capitalization Grant Application process to EPA. It is prepared annually and made available for public comment and review. The program finalized its IUP for SFY 2014 in July 2013. A copy is available at <http://health.hawaii.gov/sdwb/files/2013/08/SFY-2014-IUP.pdf>.

The following is a summary of the goals and accomplishments for SFY 2014 and a summary of the program achievements throughout the year.

1. In SFY 2014, 10 final loan agreements totaling \$32,924,850.00 were executed. This is a **19 percent increase** in the dollar amount loaned compared to SFY 2013.
2. Loan disbursements increased by **200 percent** in SFY 2014 compared to the previous state fiscal year.

Long Term Goals

1. To assist as many water purveyors as possible to attain compliance with State and Federal Drinking Water Regulations through the low interest loan program.

The DWSRF program continues to work with all four counties in Hawaii to provide SRF loan funds. The four counties own and manage a majority of the public water systems statewide with small, medium, and large sized systems and the low interest loan funds provide an affordable means of financing numerous projects in different systems. The various projects in the different systems are thus able to provide assistance to many people throughout the State of Hawaii.

2. To maintain the DWSRF Program in perpetuity.

The DWSRF program continues a conservative approach to expenditures in SFY 2014 ensuring the perpetuity of the program. To supplement the four percent set-aside and administrative demands, the program assesses fees to each loan to ensure that the administrative needs are financed in perpetuity.

The program continues to offer a tiered loan rate structure, as shown in the table below, in SFY 2014 to offer competitive rates to our borrowers and to encourage larger loans. These rates are in place until June 30, 2015 and may be adjusted depending on the ability of the fund to remain in perpetuity.

Total Loan Rate (%)	Interest Rate (%)	Loan Fee (%)	Project Loan Amount (\$)
1.00	0.00	1.00	Over 8 million
1.50	0.50	1.00	4 million to 8 million
2.00	1.00	1.00	Less than 4 million

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3. To research options of providing funds to assist in financing improvements to privately-owned public water systems.

In previous years, the DWSRF program successfully revised the Hawaii Revised Statutes (HRS) to authorize a linked deposit program. After the fact, it was found that HRS, Chapter 38.3, however, imposes additional requirements on participating financial institutions to maintain a 100% reserve, equal to the amount loaned. The reserve fund requirement and other possible regulatory requirements will ultimately limit participation by financial institutions and the program needs to conduct further research to ensure that the program developed, have benefits for all parties involved. Thus, further research needs to be completed to entertain innovative alternate means to provide funding to privately-owned public water systems.

The DWSRF program is also researching the option to loan funds to public water systems owned by the State of Hawaii, such as the Department of Transportation and the Department of Hawaiian Homelands. In addition, the program is considering extending financing to qualified privately-owned water systems in the future.

4. To promote sustainable infrastructure and energy efficiency through the use of the DWSRF's Green Project Reserve (GPR).

Funds made available from the FFY 2013 capitalization grant may, at the discretion of the State, be used for projects to address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. Examples of such projects are replacement or rehabilitation of water distribution lines and energy efficient retrofits and upgrades to pumps and treatment processes. Projects are evaluated for their contribution to improving water and energy efficiency, the reduction of greenhouse gasses, and sustainability during the proposed projects application review period.

The Hawaii DWSRF program elected to continue providing funds for the GPR in SFY 2014. A total of \$9,661,595.00, or **115 percent** of the FFY 2013 capitalization grant, was allocated to GPR projects in their executed loan agreements.

Short Term Goals

1. Continue development of a system to track the currently required tracking items, which may include accounting, management, set-asides, and compliance and customer service concerns.

The Loans and Grants Tracking System (LGTS) for the DWSRF and CWSRF programs was initiated through EPA DWSRF funding from the FFY2013 Capitalization Grant of \$450,000.00 for EPA in-kind assistance. The EPA is the contract manager for the LGTS which is to be developed and implemented by Northbridge Environmental Management Consultants. The initial project kick-off was held on February 3, 2014, however DOH management put the project on hold until Northbridge could assure the State that the LGTS would be a web-system and not only MS Access-based. There were concerns that the system would not be compatible with the Hawaii State Office of Information Management and Technology (OIMT) direction of cloud-based systems. The LGTS effort will restart in July 2014 and Northbridge has scheduled on-site meetings from October 20-23, 2014. Data migration will start in the last quarter of calendar year 2014 and system testing will start in January 2015. The system is expected to be fully operational by July 2015. Additional improvements to the LGTS (which are initiated by other states with the LGTS) may be included without any additional cost. Other State-specific improvements will be prioritized and may be funded by a future maintenance contract with Northbridge.

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Using the in-kind assistance, the EPA has paid \$24,503.10 to Northbridge for work performed from December 2013 through June 2014.

2. Continue modification of the Functional Procedures and the Operating Agreement to reflect and meet the DWSRF requirements and needs.

Review revisions and updates of the Functional Procedures to reflect and meet the DWSRF program requirements and needs continue throughout each year. The program continues to improve forms and samples used for applicants and consultants, as needed.

3. Continue to follow the implementation of the Capacity Evaluation program and adjust the implementation to meet with the DWSRF program needs.

The DWSRF program continues to monitor, discuss and review the technical, managerial and financial status and condition of the four Hawaii Counties, which is the current customer base. Additionally, the Safe Drinking Water Branch (SDWB), through the Capacity Evaluation program, continues to work with various private and small water systems to evaluate their technical, managerial and financial status and condition.

4. Continue to streamline the DWSRF program to be more efficient and to better serve its customers.

Northbridge Environmental Management Consultants, an EPA consultant, started a management study of the Hawaii DWSRF program in March 2014. The purpose of the study is to increase operational efficiency, improve loan demand, and increase customer satisfaction. At the conclusion of the study, a report with recommendations will be issued.

F. COMPLIANCE ISSUES

The Hawaii DWSRF program has complied with the applicable requirements outlined in the Operating Agreement, Chapter II, Implementation, Section D, State Assurances for the DWSRF Program, and Section E, State Requirements for the Capitalization Grant Agreement. The requirements included the following:

1. Environmental Review - Each DWSRF project has undergone an environmental assessment and review. Environmental assessment documents were prepared by the County Water Departments in accordance with HRS Chapter 343 (Environmental Impact Statements) and Hawaii Administrative Rules, Chapter 11-200, and were submitted to the Office of Environmental Quality Control (OEQC) of the State of Hawaii for review and publication. For exempt projects, DWSRF Exempt Project Certification forms were submitted to the DWSRF program with the qualifying exemption identified.
2. Intended Use Plan - The DWSRF IUP for the State of Hawaii SFY 2014 / FFY 2013 Appropriation was finalized in July 2013. A notice for public participation and input was published on May 1, 2013 with an open comment period until May 30, 2013. No public comments were received within the open comment period.
3. Other Federal (Cross-cutter) Requirements - The County Water Departments certify for each of their DWSRF projects that they are in compliance with all the federal cross-cutter rules and regulations. Each project must include the Federal Boiler Plates in the project specifications used for bidding.

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G. DWSRF NATIONAL STRATEGIC PLAN, LOAN RECIPIENT, PROJECTS & TYPES OF ASSISTANCE

U.S. Environmental Protection Agency, Drinking Water State Revolving Fund (DWSRF) Strategic Plan Goals and Objectives.

Strategic Plan Goal 2: Protecting America's Waters

Strategic Plan Objective 2.1: Protect Human Health – Reduce human exposure to contaminants in drinking water, fish, and shellfish and recreational waters, including protecting source waters.

Strategic Measure: Water Safe to Drink – By 2015, 90 percent of community water systems will provide drinking water that meets all applicable health-based drinking water standards through approaches including effective treatment and source water protection.

Hawaii's Contribution and Support of the National EPA DWSRF Strategic Plan:

The Hawaii DWSRF program supports the above mentioned National USEPA DWSRF Strategic Plan Goal 2 (Protecting America's Waters), Objective 2.1 (Protect Human Health), and Strategic Measure (Water Safe to Drink). Specifically, Hawaii has established and is managing the revolving loan fund to make low-cost loans to water systems to finance the cost of infrastructure projects to achieve or maintain compliance with Safe Drinking Water Act requirements. Hawaii DWSRF activities support USEPA Program Reporting Code (PRC) 201B81E.

Every summer, Hawaii and USEPA negotiate Hawaii's Strategic Plan commitments for the SFY starting July 1st. Hawaii submitted its Strategic Plan commitments for the Federal Fiscal Year starting on October 1st.

All DWSRF loans have assisted public water systems to meet the federal and state drinking water compliance requirements. Details of Hawaii's DWSRF activities supporting the National USEPA Strategic Plan will be submitted to EPA as part of the DWNIMS data collection effort. Last year's plan is available at: http://water.epa.gov/resource_performance/planning/.

FINANCIAL SECTION

The following is a summary of the financial activities of the program for the fiscal year ended June 30, 2014. The DOH considers the DWTRLF to be a special revolving fund. The fund was established in order to receive proceeds from specific revenue sources such as Federal Capitalization Grants, State Capital Improvement Project (CIP) Appropriations for State Match, loan repayments, and interest earnings from investments and fees.

A. INTERNAL CONTROLS

The DWTRLF program is responsible for establishing and maintaining a system of internal accounting controls to ensure compliance with applicable laws and regulations related to federal and state financial assistance programs. The objective of an internal control system is to provide the program with reasonable, but not absolute, assurances that assets are safeguarded against loss from unauthorized use or disposition. It also ensures that transactions are executed and recorded with proper authorization to permit preparation of financial statements in accordance with generally accepted accounting principles.

Based on annual Performance Evaluation Reviews by EPA and annual financial audits by independent auditors, we believe that the DWTRLF program's internal controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

B. ACCOMPLISHMENTS OF THE PROGRAM

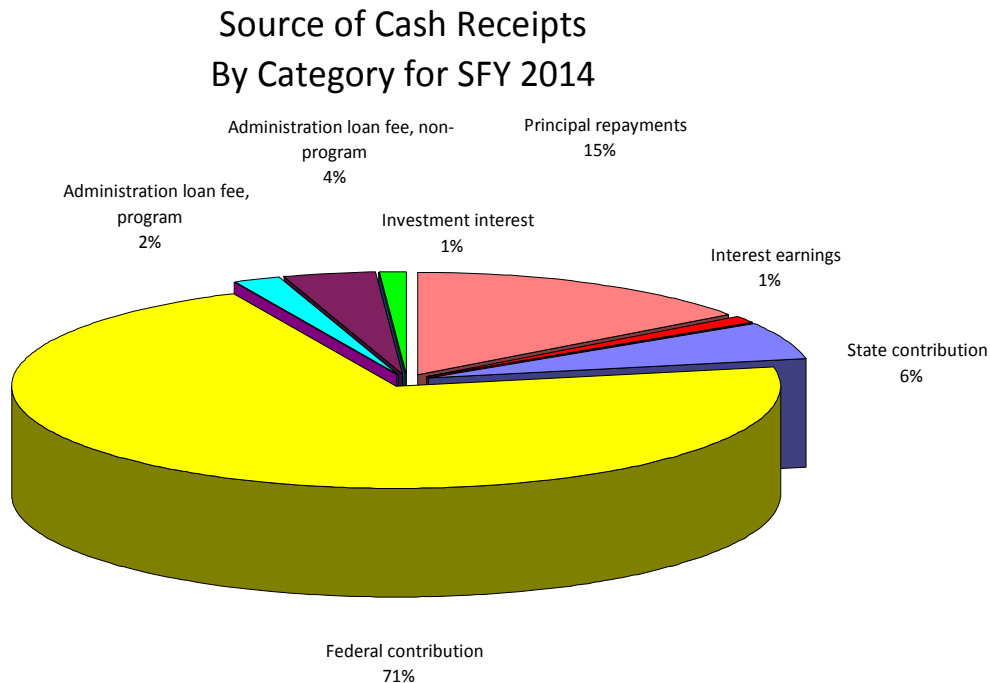
1. Sources of Funds

Since the program's inception, the DOH has received a total of \$167,972,500.00¹ in federal capitalization grants. Of this amount, \$24,154,531.73 was set aside to support other drinking water program initiatives and administration of the loan program with the remaining \$143,817,968.27 earmarked for DWSRF loan funds.

¹ Includes \$19.5 million from ARRA and withholdings by EPA of \$450,000.00 for LGTS and \$101,500.00 of in-kind expenses in 2000, 2001, and 2005.

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The Graph below illustrates the percentage breakdown of sources of cash for the SRF program by category received for SFY 2014.



2. State Match

Pursuant to Act 134/SLH13, the Hawaii State Legislature appropriated monies from general obligation bond funds for the required 20% state match for the FFY 2013 EPA SRF Capitalization Grant. The state match was transferred into the DWTRLF account in June 2014.

Hawaii State law prohibits the program from using State CIP funds (match funds) for administrative purposes. In order to comply with EPA’s disbursement requirement, the program obligates all of its state match funds to loan projects. Thus, the program maintains a greater percentage of state match funds vs. cash draw for each active capitalization grant.

3. Executed Loan Agreements/Binding Commitments:

As of June 30, 2014, the DOH committed \$125,745,085.98 federal capitalization grant funds and \$30,128,440.60 state match funds to DWSRF projects. These funds benefit communities of all sizes throughout the State of Hawaii.

The DWSRF committed \$208,439,000.01 or 94.9% of all funds available since the inception of the program.

4. Automated Standard Application for Payments (ASAP):

The program drew \$22,259,216.28 of its capitalization grant funds from the ASAP system during SFY 2014. Of this amount, \$19,262,523.26 was used for DWSRF loans and \$2,996,693.02 for DWSRF set-aside operations.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
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5. Loan Repayments and Investment Interest:

Under the DWSRF, the program established several accounts or activity codes to track the program's revenue sources. These funds are legally restricted for use to fund expenditures for drinking water infrastructure projects, eligible costs for program set-aside activities under the Safe Drinking Water Act, and administrative costs relating to the operation and maintenance of the DWSRF Program.

Activity Code	Revenue Source	SFY 2014 Amount Received (\$)
422	Principal from repayments	4,769,474.09
423	Interest from repayments	227,758.96
424	Investment interest	176,345.14

C. PROGRAM AND SET-ASIDE ACTIVITIES

Highlights of the program's activities are as follows:

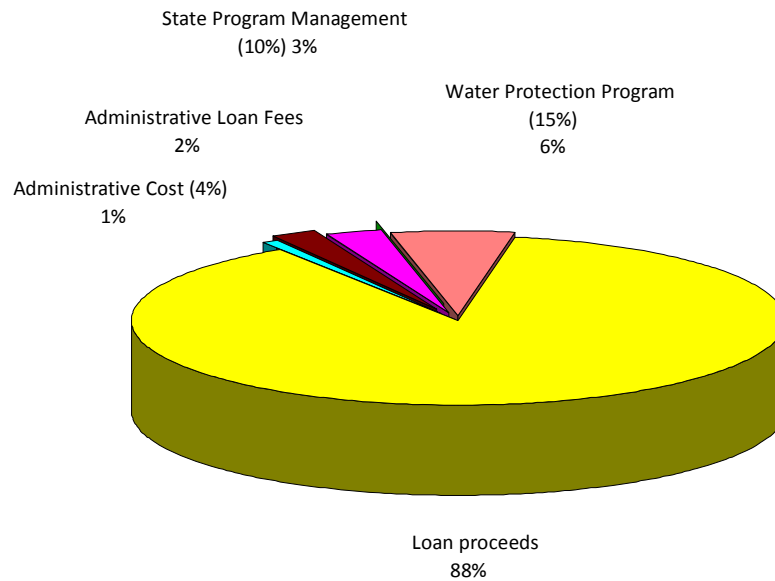
To administer the DWSRF program and its related drinking water programs, the program spent \$26,776,465.81. This consisted of the following program expenses:

Activity Code	Program	SFY 2014 Amount Expended (\$)
420, 421, 422	Loan Disbursements	23,763,259.53
426, 430	Administrative Costs	746,357.48
427	State Program Management (10%)	733,383.42
428	Small Systems Technical Assistance (2%)	0.00
435	Operator Certification (10%)	6,113.35
436	Wellhead Protection Program (15%)	1,085,377.71
437	Technical or Financial Assistance to PWSs (15%)	441,974.32
Total Program Expenditures		26,776,465.81

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The Graph below shows the significance of loan proceeds in relation to all costs associated with the DWTRLF’s operations.

**Total Cash Outlays
By Category for SFY 2014**



D. CREDIT RISKS OF THE DWTRLF LOANS

The SRF program requires that every applicant pledge a dedicated source of revenue to repay the loan. Dedicated sources of revenue include a pledge of the county’s full faith credit and/or a pledge of general obligation bonds or a dedicated revenue source.

The following table contains specific information regarding the credit worthiness of our four DWTRLF loan recipients. The table displays the credit rating categories for these recipients. The General Obligation (G.O.) Bond credit agencies, Moody’s Investors Service and Fitch Ratings, gave every Hawaii Board of Water Supply or Water Board a High Quality rating.

In summary, the DOH feels that the DWTRLF loan portfolio carries a high degree of solvency.

Recipients	Committed Amount (\$)	Moody’s/Fitch Bond Rating	Percentage of DWSRF Loan Portfolio
City and County of Honolulu, Board of Water Supply	65,748,792.44	Aa1/AA+	32%
County of Hawaii, Water Board	37,159,384.74	AA2/AA-	18%
County of Kauai, Board of Water Supply	38,040,657.18	Aa2/AA-	18%
County of Maui, Board of Water Supply	67,490,165.65	Aa1/AA+	32%

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
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Recipients	Committed Amount (\$)	Moody's/Fitch Bond Rating	Percentage of DWSRF Loan Portfolio
Totals	208,439,000.01		100%

E. OTHER INFORMATION

This report was prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and Reporting Requirements requested by EPA.

Independent Audit: The accounting firm of N&K CPAs, Inc. was selected by the DOH to perform a financial audit of the DWSRF Program's activities for SFY 2014. Although the activities and financial statements for state fiscal year 2014 are unaudited as of the date of this report, Accuity LLP performed a financial audit of the DWSRF Program for SFY 2013.

The auditor's report for the SFY 2013 DWSRF financial statements was published on November 15, 2013. The audit report reads, "In our opinion, the Fund complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds program (CFDA No. 66.468) for year ended June 30, 2013."

The auditor's report for SFY 2014 should be completed and published sometime in December 2014.

Program information: For further information regarding this report, please contact SDWB at: (808) 586-4258 or Environmental Resources Office – Water Revolving Fund Staff at: (808) 586-4575.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
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LIST OF ATTACHMENTS

- ATTACHMENT 1: DRINKING WATER STATE REVOLVING FUND PROJECTS RECEIVING SRF ASSISTANCE
ATTACHMENT 2: STATEMENT OF NET POSITION
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DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF) ANNUAL REPORT TO THE TWENTY-EIGHTH LEGISLATURE

ATTACHMENT 1: DRINKING WATER STATE REVOLVING FUND PROJECTS RECEIVING SRF ASSISTANCE

Summary of the Drinking Water Treatment Revolving Loan Fund

Actual, Interim, and Planned Binding Commitments

No.	Binding Commitment Date	Project Description (Project Name - Based on the Final Loan Agreement)	Rate	Loan Amount
1	11/15/1999	213-0001 Kamole Water Treatment Plant	1.55%	\$ 7,840,087.00
2	7/15/2001	130-0001 Waimea Treatment Plant Upgrade-Phase II [Interim 11/15/00]	1.37%	\$ 739,210.00
3	7/15/2001	410-0001 Damage Repairs to Kokolu Tunnel [Interim 11/15/00]	1.37%	\$ 1,663,201.02
4	10/15/2001	133-0001 Saddle Road Well "A" [Interim 11/15/00]	1.01%	\$ 1,610,048.59
5	4/15/2002	133-0001 Kuuhae Well "A" (Replace Waiuli Spring) [Interim 7/15/01]	1.01%	\$ 334,240.00
6	4/15/2002	133-0001 Makapala Well (Replace Murphy Tunnel) [Interim 7/15/01]	1.01%	\$ 1,292,914.85
7	4/15/2002	109-0001 Pahala Well "B" (Replace Alii Tunnel) [Interim 7/15/01]	1.01%	\$ 2,326,871.30
8	4/15/2002	107-0001 Kaele Nihoa (Replace Kaele & Papekoi Springs) [Interim 7/15/01]	1.01%	\$ 2,245,858.00
9	4/15/2002	408-0001 Kekaha Well (Replumao Well) [Interim 7/15/01]	1.01%	\$ 862,862.74
10	7/15/2003	404-0001 Rehabilitation of 27" Steel Pipe, Hanapepe-Elele Water System [Interim 5/15/02]	0.99%	\$ 691,134.00
11	7/15/2003	413-0002 Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well #3 [Interim 5/15/02]	0.94%	\$ 1,243,976.74
12	3/15/2004	413-0002 Rehabilitation of 27" Steel Pipe, Hanapepe-Elele Water System [Interim 5/15/02]	0.94%	\$ 397,736.50
13	1/15/2005	410-0005 Rehabilitate Lihue Steel Tanks 1 & 2 [Interim 7/15/03]	0.46%	\$ 1,243,017.00
14	1/15/2005	413-0005 Ornella's 0.2 MG Tank Refurbish [Interim 7/15/03]	0.59%	\$ 809,398.00
15	12/15/2004	331-0002 Waimanalo Well III [Interim 3/15/04]	0.10%	\$ 2,251,700.00
16	8/15/2005	335-0004 Palani Street Water System Improvements [Interim 8/15/05]	0.00%	\$ 2,790,658.33
17	8/15/2005	413-0006 16 inch Waterline Replacement along Kuhio Highway, Leho Drive to North Papaloa Road, Wailua, Kauai, Hawaii [Interim 1/15/05]	0.16%	\$ 2,305,093.02
18	9/15/2005	333-0001 California Avenue Water System Improvements, Parts II and III [Interim 4/15/05]	0.31%	\$ 3,788,303.68
19	9/15/2005	335-0003 Ewa Shaft Granular Activated Carbon (GAC) Treatment Facility [Interim 3/15/04]	0.10%	\$ 13,000,184.75
20	11/15/2005	335-0002 Kuna Wells II-Nitrate Treatment Facility [Interim 3/15/04]	0.10%	\$ 395,054.20
21	1/15/2007	408-0002 Popu Road 16 inch Main Replacement [Interim 1/15/05]	0.16%	\$ 5,158,885.83
22	2/15/2007	213-0003 Kamole Weir Water Treatment Facility Clear Well Replacement [Interim 12/15/03]	0.41%	\$ 3,968,080.00
23	3/15/2007	331-0018 Pearl City Water System Improvements [Interim 5/15/07]	0.15%	\$ 9,704,849.00
24	3/15/2008	331-0024 Alewa Water System Improvements [Interim 5/15/07]	0.01%	\$ 1,255,435.00
25	3/15/2008	331-0025 Lihua Water System Improvements [Interim 5/15/07]	0.01%	\$ 2,686,036.00
26	3/15/2009	214-0009 Napili Well "A" Site Improvements [2/15/09]	0.01%	\$ 1,934,183.88
27	2/15/2009	400-0001 Stable 1.0 MG Tank & Connecting Waterline [Interim 5/15/07]	0.37%	\$ 1,894,084.00
28	3/15/2009	154-0001 Hakau Spring Improvement [Interim 1/15/08]	0.26%	\$ 7,274,997.83
29	4/15/2009	331-0031 Oahu Ave and Huelani Drive 8-inch Mains [Interim 5/15/08]	0.36%	\$ 606,167.00
30	5/15/2009	436-0005 Kaula Highway 12-inch Main Replacement Elepaio Road to Huakai Road, Job No. 05-04, KW-27, Kekaha-Waimea, Kauai, Hawaii [Interim 8/15/09]	0.32%	\$ 1,324,452.00
31	8/15/2009	404-0003 Waha, Waiawa, and Niho Roads Main Replacement, Job No. 05-07, K-07, LO-13, at Kalahao, Kauai, Hawaii [Interim 8/15/09]	0.32%	\$ 3,969,537.33
32	8/15/2010	406-0003 Kapulena Well Development Phase 1 [Interim 11/15/09]	0.42%	\$ 1,936,018.00
33	1/15/2010	133-0004 Waimea Waterline Improvements - A1 Street, Kehau, Mole, & Malu Place [Interim 4/15/11]	0.00%	\$ 3,793,779.17
34	8/15/2010	213-0006 Kamole Water Treatment Plant High Lift Pumps [Interim 8/15/11]	0.00%	\$ 1,000,154.00
35	8/15/2011	213-0006 Kamole Water Treatment Plant Sludge Drying Beds [Interim 8/15/10]	0.12%	\$ 3,458,753.00
36	8/15/2011	213-0006 Kamole Water Treatment Plant High Lift Pumps [Interim 8/15/11]	0.00%	\$ 674,409.00
37	8/15/2011	247-0005 Upper Omapoia Road Tank Replacement [Interim 8/15/11]	0.35%	\$ 2,070,400.00
38	8/15/2011	247-0005 Middle and Lower Omapoia Road Tank Replacements [Interim 8/15/11]	0.00%	\$ 1,093,228.00
39	8/15/2011	212-0007 Lower Paia Water Tank Replacement [Interim 11/15/11]	0.35%	\$ 576,043.00
40	11/15/2011	212-0007 Upper Paia Water Tank Replacement [Interim 11/15/11]	0.00%	\$ 1,012,994.00
41	4/15/2012	106-0001 Kuanini Production Well and Supporting Facilities [Interim 8/15/11]	1.00%	\$ 850,000.00
42	8/15/2012	217-0005 Waiuku Well Development [Interim 2/15/12]	1.00%	\$ 1,344,599.00
43	8/15/2012	400-0004 Job No. FLH-03, Kaili Horizontal Directional Drilled Well [Interim 2/15/12]	0.50%	\$ 398,466.55
44	8/15/2012	128-0002 Kymarsiey #1- 0.3 MG Reservoir Replacement [Interim 11-15-11]	1.00%	\$ 2,000,000.00
45	12/15/2012	213-0009 Kapakapa Road Waterline Improvements Phase 1 [Interim 2/15/12]	1.00%	\$ 2,384,278.00
46	4/15/2013	331-0038 Kealahou Dr., Poohehu Dr., and Waipaoa PI 8-in Mains [Commitment 10/10/12]	1.00%	\$ 846,047.00
47	4/15/2013	331-0049 Kona Street 8-inch Main [Commitment 10/10/12]	1.00%	\$ 1,179,714.00
48	4/15/2013	331-0057 Ward Avenue 12-inch and 8-inch Water Mains [Commitment 10/10/12]	1.00%	\$ 4,389,728.00
49	4/15/2013	413-0008 Job No. 02-15, WK28, Wailua Houselets Main Replacement - Phase I [Interim 2/15/12]	0.50%	\$ 2,096,294.00
50	5/15/2013	215-0003 Waikamoi Flume Repair/Replacement [Commitment 11/9/12]	1.00%	\$ 4,671,000.00
51	5/15/2013	215-0003 Waikamoi Flume Repair/Replacement [Commitment 11/9/12]	0.00%	\$ 8,362,760.00
52	10/15/2013	247-0004 Ohiwa Water Treatment Plant - Relining of the 8.5 MG Sedimentation Basin [Interim 11/15/11]	1.00%	\$ 1,492,502.00
53	10/15/2013	215-0014 Paa-Kuau Water System Improvements - Organic Carbon Reduction [Interim 2/15/12]	0.50%	\$ 4,960,519.00
54	1/15/2014	212-0011 Maui Meadows Booster Pump Station #18 Improvements [Commitment 4/22/13]	1.00%	\$ 815,447.00
55	2/15/2014	212-0009 Waiuku Well Development [Interim 2/15/12]	1.00%	\$ 1,100,000.00
56	4/15/2014	331-0042 Foster Village Water System Improvements, Part III [Commitment 6/24/13]	1.00%	\$ 2,000,000.00
57	5/15/2014	331-0042 Foster Village Water System Improvements, Part I [Commitment 6/24/13]	1.00%	\$ 1,382,569.00
58	5/15/2014	331-0062 Kamehameha Highway 16-inch and 8-inch Mains (Heleia) [Commitment 6/24/13]	0.50%	\$ 5,727,070.00
59	5/15/2014	331-0062 Kamehameha Highway 16-inch and 8-inch Mains (Heleia) [Commitment 6/24/13]	0.50%	\$ 6,253,645.60
60	5/15/2014	331-0063 Kapiolani Boulevard 12-inch Main [Commitment 6/24/13]	0.50%	\$ 5,472,724.00
61	5/15/2014	331-0059 Woodlawn Drive 8-inch Main [Commitment 6/24/13]	1.00%	\$ 3,170,373.00
TOTAL FINAL PROJECTS				\$ 164,691,839.01

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
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Summary of the Drinking Water Treatment Revolving Loan Fund

Interim Binding Commitments

No.	Binding Commitment Date	Project Description (Project Name - Based on the Commitment Letter or Interim Loan Agreement)	Rate	Loan Amount
1	11/15/2009	129-0001 Halaula Well Development Phase 1	0.00%	\$ 1,651,395.00
2	3/15/2012	130-0003 Waimea WTP Microfiltration - Phase IV	0.50%	\$ 9,202,816.00
3	8/27/2013	C 213-0015 Halimale Tank Replacement	1.00%	\$ 817,368.00
4	8/27/2013	C 215-0010 Kula 200 #1 Tank Replacement	1.00%	\$ 1,396,060.00
5	8/28/2013	C 161-0002 Ahualoa-Honokaa Transmission Waterline	1.00%	\$ 2,319,148.00
6	7/25/2013	C 214-0014 Mahinahina Well #1 Development	0.00%	\$ 10,346,733.00
7	8/27/2013	C 215-0009 Phase 6 Booster Pump Upgrades	0.50%	\$ 4,619,078.00
8	8/27/2013	C 215-0011 Olinda Water Treatment Facility- Organic Carbon Reduction	0.50%	\$ 6,170,867.00
9	4/29/2014	C 331-0047 Kailua Water System Improvements, Part III	0.50%	\$ 6,170,867.00
10	5/28/2014	C 133-0004 Kapulea Well Development Phase 2 (Production Well and 0.3 MG Reservoir)	1.00%	\$ 2,664,824.00
		TOTAL INTERIM PROJECTS		\$ 43,747,161.00

Planned (Future) Interim Binding Commitments

Project Description (Project Name - Based on the Priority List)	Proposed Loan Amount
331-0038 Kealahou Dr., Poohehua Dr., and Waipao Pt 8-inch Mains (Adj. Only-from final to Suppl.)	\$ (115,308.71)
129-0001 Halaula Well Development Phase 1 (Adj. Only-from interim to final)	\$ 898,269.00
130-0003 Waimea WTP Microfiltration (Adj. Only-from interim to final)	\$ -
400-0011 PLH-39, Lihue Baseyard Improvements for the Department of Water	\$ 8,800,000.00
TOTAL PLANNED (FUTURE) COMMITMENTS	\$ 9,582,960.29
TOTAL FINAL, INTERIM & PLANNED PROJECTS	\$ 218,021,960.30

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
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ATTACHMENT 2: STATEMENT OF NET POSITION

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF NET POSITION

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents in State Treasury (note C)	\$ 69,443,217.44	\$ 64,924,191.64
Accrued Interest (note D)	77,600.40	62,064.56
Accrued Interest from Investment	58,590.58	42,126.01
Accrued Loan Fees, program (note D)	213,363.71	185,197.80
Accrued Loan Fees, non-program (note D)	425,597.79	443,339.83
Due from federal government	54,961.48	492,371.23
Current maturities of loans receivable (note D)	<u>5,477,446.21</u>	<u>4,364,032.62</u>
Total Current Assets	75,750,777.61	70,513,323.69
Loans Receivable, net of current maturities (note D)	72,893,916.52	56,972,708.30
Capital Assets		
Office Equipment (notes B and F)	1,296,245.21	1,213,310.27
Less: Accumulated Depreciation (notes B and F)	<u>(1,092,719.06)</u>	<u>(1,028,627.87)</u>
Total Office Equipment	203,526.15	184,682.40
Transportation Equipment (notes B and F)	59,996.50	23,679.02
Less: Accumulated Depreciation (notes B and F)	<u>(27,008.12)</u>	<u>(23,679.02)</u>
Total Transportation Equipment	<u>32,988.38</u>	<u>-</u>
Total Capital Assets	<u>236,514.53</u>	<u>184,682.40</u>
TOTAL ASSETS	<u>\$ 148,881,208.66</u>	<u>\$ 127,670,714.39</u>
LIABILITIES & NET POSITION		
Current Liabilities		
Payroll Payable	\$ 57,759.99	\$ 44,272.15
Accounts Payable	361,037.63	152,373.16
Indirect Payable	68,574.02	128,672.76
Accrued Vacation, current portion (note B)	<u>42,034.99</u>	<u>23,743.78</u>
Total Current Liabilities	529,406.63	349,061.85
Accrued Vacation, net of current portion (note B)	105,094.84	132,877.43
Other Post-employment Benefits (note B and G)	<u>599,989.94</u>	<u>489,813.99</u>
Total Liabilities	1,234,491.41	971,753.27
Net Position		
Invested in capital assets	236,514.53	184,682.40
Restricted	147,410,202.72	126,514,278.72
Unrestricted	<u>-</u>	<u>-</u>
Total Net Position	<u>147,646,717.25</u>	<u>126,698,961.12</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 148,881,208.66</u>	<u>\$ 127,670,714.39</u>

The accompanying notes are an integral part of this statement.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT TO THE TWENTY-EIGHTH LEGISLATURE**

ATTACHMENT 3: STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

	Year Ended	
	June 30, 2014	June 30, 2013
OPERATING REVENUES		
Interest earnings from Loans (note B)	\$ 243,294.80	\$ 226,485.23
Administration loan fee earnings, program (note B)	675,465.07	693,020.95
Administration loan fee earnings, non-program (note B)	1,367,976.62	1,534,500.92
Total Operating Revenues	2,286,736.49	2,454,007.10
OPERATING EXPENSES BY PROGRAM ACTIVITIES		
Administrative Cost - 4% set-aside	207,643.92	751,481.55
Admin. Technical Assistance - 4% set-aside	-	-
State Program Management - 10% set-aside	575,732.34	1,209,464.29
Source Water Protection - 10% set-aside	-	-
Capacity Development - 10% set-aside	-	-
Operator Certification - 10% set-aside	6,102.05	10,536.63
Small Systems Technical Assistance - 2% set-aside	-	-
Water Protection Program - 15% set-aside	-	-
Wellhead Protection Program - 15% set-aside	1,251,757.25	247,388.75
Technical or Financial Assistance - 15% set-aside	435,385.32	390,732.19
Admin Loan Fee - Program	-	-
Admin Loan Fee - Non Program	742,812.09	(119.70)
Principal forgiveness for SRF	1,959,163.63	-
Total Operating Expenses	5,178,596.60	2,609,483.71
OPERATING LOSS	(2,891,860.11)	(155,476.61)
NON-OPERATING REVENUES		
Federal contribution	21,821,806.53	4,381,775.74
ARRA Federal contribution	-	367,812.90
State matching contribution	1,825,000.00	2,715,000.00
Principal forgiveness for ARRA	-	(6,211,200.00)
Principal forgiveness for SRF	-	(1,003,006.00)
Interest earnings (loss) from Investment (note B)	192,809.71	299,276.67
Total Non-operating revenues and expenses	23,839,616.24	549,659.31
CHANGE IN NET POSITION	20,947,756.13	394,182.70
Net position - beginning of year	126,698,961.12	126,304,778.42
Net position - end of year	\$ 147,646,717.25	\$ 126,698,961.12

The accompanying notes are an integral part of this statement.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
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ATTACHMENT 4: STATEMENT OF CASH FLOWS

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

Cash flows from operating activities:	
Interest income from loans	\$ 227,758.96
Admin Loan Fees	2,033,017.82
Principal repayments on loans	4,769,474.09
Disbursement of loan proceeds	(23,763,259.53)
Personnel costs	(958,392.86)
Payments to vendors	(1,930,881.68)
	<hr/>
Net cash flows used by operating activities	(19,622,283.20)
Cash flows from noncapital financing activities:	<hr/>
	24,084,216.28
Net cash flows provided by noncapital financing activities	24,084,216.28
Cash flows from capital and related financing activities:	
Purchase of equipment	(119,252.42)
	<hr/>
Net cash flows used by capital and related financing activities	(119,252.42)
Cash flows from investing activities:	
Interest gain from investments	176,345.14
	<hr/>
Net cash flows provided by investing activities	176,345.14
NET INCREASE IN CASH	4,519,025.80
Cash Balance at July 1, 2013	<hr/>
	64,924,191.64
Cash Balance at June 30, 2014	<hr/>
	\$ 69,443,217.44
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (2,891,860.11)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	67,420.29
Principal forgiveness for SRF	1,959,163.63
Changes in assets and liabilities:	
Increase in interest receivable on loans	(15,535.84)
Increase in administrative fee receivable on loans	(10,423.87)
Increase in accrued salaries and other administrative costs	152,562.19
Increase in other post-employment benefits	110,175.95
Increase in loans receivable	(18,993,785.44)
	<hr/>
Net cash used by operating activities	\$ (19,622,283.20)

The accompanying notes are an integral part of this statement.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
ANNUAL REPORT TO THE TWENTY-EIGHTH LEGISLATURE**

ATTACHMENT 5: NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE A - ESTABLISHMENT AND PURPOSE OF THE DWTRLF

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 Fund, provided that the amount of funding did not exceed thirty-one percent (31%) of the annual capitalization grant as follows:

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

To receive the federal capitalization grants, the 1997 State of Hawaii Legislature established the Drinking Water Treatment Revolving Loan Fund (DWTRLF). The DWTRLF is intended to provide loans in perpetuity to public drinking water systems for construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final loan agreement date, whichever is later. The Fund is administered by the Safe Drinking Water Branch, Environmental Management Division of the Department of Health (DOH), State of Hawaii.

NOTE B - ACCOUNTING POLICIES

1. Financial Statement Presentation

The financial statements are intended to present the financial position and results of operations of only that portion of the funds of the DOH, State of Hawaii that is attributable to the transactions of the DWTRLF.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

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).

In June 1999, the GASB issued Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for state and local governments. This statement established new financial reporting requirements for state and local governments and required new information as well as restructuring much of the information that governments presented in the past. GASB also required additional statements in conjunction with Statement 34 (e.g., Statement 36, Recipient Reporting for Certain Shared Non-exchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for state and local governments: Omnibus, and Statement 38, Certain Financial Statement Note Disclosures). The DOH implemented these standards in fiscal year 2002.

2. Measurement Focus and Basis of Accounting

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

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

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. 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.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

3. Loans Receivable

Transactions related to loans are usually classified as investing activities on the statement of cash flows. Management of the Fund considers these loans to be program loans, as they are undertaken to fulfill a governmental responsibility. All loans made and collected (including interest) are considered to be operating cash outflows and inflows, respectively.

4. Capital Assets

Capital assets, which include equipment, are reported in financial statements. Management capitalizes equipment if the cost is in excess of \$5,000 and the useful life exceeds one year.

Purchased capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

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

5. Administration Costs

The accompanying financial statements do not reflect certain administration costs incurred which are paid for by other sources of funding from the DOH. These costs include the DOH and state's overhead which the DOH does not assess to the SRF.

6. Fund Accounts

The DWTRLF consists of the State Revolving Fund (SRF) and non-SRF activity. The SRF activity consists exclusively of the state match, federal capitalization grant loans, principal loan repayments, and interest from loans and investments. Non-SRF activity consists of administration loan fees and federal set aside funds.

7. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Accrued Vacation

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

9. Accumulated Sick Leave

Sick leave accumulates at a rate of 14 hours for each month of service without limit, but may be taken only in the event of an illness and is not convertible to pay upon termination of employment. However, an employee who leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System (ERS). At June 30, 2014, accumulated sick leave was approximately \$323,500.

10. Other Post-employment Benefits (OPEB)

The state provides post-retirement health care and life insurance benefits to qualified retirees classified as other post-employment benefits (OPEB). OPEB costs are measured and disclosed using the accrual basis of accounting. From an accrual accounting perspective, the cost of OPEB should be associated with the periods in which the exchange of salaries and benefits for employee services occur, rather than with the periods when benefits are paid or provided.

GASB 45 requires state and local government employers to move from accounting for OPEB costs from a pay-as-you-go basis to an accrual basis for the actuarially determined annual OPEB cost. The OPEB liability is the long-term financial obligation allocated to the DWTRLF.

11. 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.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE C - CASH AND CASH EQUIVALENTS

All monies of the DWTRLF are deposited into 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.

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.

Investments are categorized to give an indication of the level of risk assumed by the DWTRLF. Category 1 includes investments that are insured or for repurchase agreements, collateralized by underlying securities that are so held. Category 2 includes uninsured and unregistered investments for which the broker-dealer in the DWTRLF's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker-dealer, but not in the DWTRLF's name.

Since all of the DWTRLF's cash was included in the state cash pool, the category of risk is not determinable at the Fund level.

NOTE D - LOANS RECEIVABLE

At June 30, 2014, the DWTRLF had outstanding loan receivables with the following government entities:

Eleven loans with the City & County of Honolulu, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.

\$21,430,045.58

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Twelve loans with the County of Hawaii, Water Board; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion. 13,658,716.89

Eleven loans with the County of Maui, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion. 17,712,379.37

Fourteen loans with the County of Kauai, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion. 25,570,220.89

Total \$78,371,362.73

Loans mature at various dates through 2034. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2015	\$ 5,477,446.21
SFY2016	\$ 5,509,927.92
SFY2017	\$ 5,531,906.35
SFY2018	\$ 5,553,300.25
SFY2019	\$ 5,575,101.85
Thereafter	\$50,723,680.15
	<u>\$78,371,362.73</u>

As of June 30, 2014, accrued interest receivable, accrued administration loan fee receivable - program income (425), and accrued administration loan fee receivable - non-program income (430) on loans totaled \$77,600.40, \$213,363.71, and \$425,597.79, respectively.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The program believes that all loans will be repaid according to the loan terms. Accordingly, no provision for uncollectible amounts has been recorded.

As of June 30, 2014, the DWTRLF has committed to make additional loans to the following government entities:

City & County of Honolulu, Board of Water Supply	\$ 6,110,667.00
County of Hawaii, Water Board	15,838,183.00
County of Kauai, Board of Water Supply	-
County of Maui, Board of Water Supply	<u>21,798,311.00</u>
Total	\$43,747,161.00

NOTE E - FEDERAL FUNDING AND STATE MATCH

The DWTRLF is capitalized by grants from EPA authorized by Section 1452 of the Safe Drinking Water Act (the Act) with matching funds from the state. As of June 30, 2014, EPA has awarded \$148,472,500.00 to the state, of which \$115,039,913.84 has been drawn down for loans and set asides. The state has also legislated and committed matching funds of \$29,694,500.00.

**DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)
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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The table below summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2014:

Budget Period	FFY	Amount	DWTRLF Cash Draws	EPA Draws (deducted prior to issuance of cap grant)	Funds Available
Carryover from previous years:	(1997 – 1999)	\$ 27,143,900.00	\$ 27,143,900.00	\$ -	\$ -
02/26/01 - 06/30/08	2000	\$ 7,757,000.00	\$ 7,682,000.00	\$ 75,000.00 ¹	\$ -
09/01/02 - 09/30/08	2001	\$ 7,789,100.00	\$ 7,765,100.00	\$ 24,000.00 ²	\$ -
10/01/03 - 06/30/11	2002	\$ 8,052,500.00	\$ 8,052,500.00	\$ -	\$ -
04/01/04 - 06/30/11	2003	\$ 8,004,100.00	\$ 8,004,100.00	\$ -	\$ -
10/01/05 - 06/30/13	2004	\$ 8,303,100.00	\$ 8,303,100.00	\$ -	\$ -
09/01/06 - 06/30/16	2005	\$ 8,285,500.00	\$ 7,936,815.57	\$ 2,500.00 ³	\$ 346,184.43
07/01/07 - 06/30/17	2006	\$ 8,229,300.00	\$ 7,969,587.71	\$ -	\$ 259,712.29
03/01/08 - 06/30/17	2007	\$ 8,229,000.00	\$ 8,030,376.87	\$ -	\$ 198,623.13
03/01/09 - 06/30/18	2008	\$ 8,146,000.00	\$ 5,869,569.21	\$ -	\$ 2,276,430.79
01/01/10 - 06/30/19	2009	\$ 8,146,000.00	\$ 1,886,733.44	\$ -	\$ 6,259,266.56
04/01/11 - 06/30/17	2010	\$ 13,573,000.00	\$ 5,630,649.42	\$ -	\$ 7,942,350.58
09/30/11 - 06/30/18	2011	\$ 9,268,000.00	\$ 4,808,181.21	\$ -	\$ 4,459,818.79
09/28/12 - 06/30/19	2012	\$ 9,125,000.00	\$ 5,405,800.41	\$ -	\$ 3,719,199.59
09/30/13 - 06/30/20	2013	\$ 8,421,000.00	\$ -	\$ 450,000.00 ⁴	\$ 7,971,000.00
		\$148,472,500.00	\$114,488,413.84	\$ 551,500.00	\$33,432,586.16

¹ The contract amounts for Northbridge (\$25,000) and Cadmus (\$50,000) were deducted from the set-asides (4% and 10%, respectively) FFY2000 cap grant. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

² The \$24,000 was deducted from the FFY2001 cap grant, 10% set-aside for the Cadmus Contract. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

³ The \$2,500 was deducted from the 4% set-aside prior to the issuance of the FFY2005 cap grant for an EPA County workshop. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

⁴ The \$450,000 was deducted from the 4% set-aside prior to the issuance of the FFY2013 cap grant to pay for the Northbridge LGTS computer system. The money was deducted prior to the issuance of the cap grant and therefore shows up in EPA's records and not in FAMIS.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

The table below summarizes the state match funds for each EPA capitalization grant awarded to the DWTRLF. The list shows the federal fiscal year (grant year), source of state funds, and dollar amount of state match for each EPA capitalization grant as of June 30, 2014.

Federal Fiscal Year	Source of State Funds	20% State Match Amount
Totals from previous years:		\$ 18,358,700.00
	SFY's 1997 - 2007	
2008	Act 158/08 Act 213/07	\$ 1,084,900.00 \$ 544,300.00
	Total 08 Match	\$ 1,629,200.00
2009	Act 162/09 Act 158/08	\$ 1,043,100.00 \$ 586,100.00
	Total 09 Match	\$ 1,629,200.00
2010	Act 180/10 Act 162/09	\$ 2,127,700.00 \$ 586,900.00
	Total 10 Match	\$ 2,714,600.00
2011	Act 164/11 Act 180/10	\$ 1,266,300.00 \$ 587,300.00
	Total 11 Match	\$ 1,853,600.00
2012	Act 106/12 Act 164/11	\$ 376,300.00 \$ 1,448,700.00
	Total 12 Match	\$ 1,825,000.00
2013	Act 134/13	\$ 1,684,200.00
	Total 13 Match	\$ 1,684,200.00
Total 20% State Match		\$ 29,694,500.00

NOTE F - EQUIPMENT

The following are the changes in equipment and accumulated depreciation during the year:

	Balance at <u>July 1, 2013</u>	SFY 2014		Balance at <u>June 30, 2014</u>
		<u>Increases</u>	<u>Decreases</u>	
Equipment	\$1,236,989.29	\$119,252.42	\$ -	\$1,356,241.71
Accumulated Depreciation	(1,052,306.89)	(67,420.29)	-	(1,119,727.18)
	\$ 184,682.40	(\$ 51,832.13)	\$ -	\$ 236,514.53

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

NOTE G – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Plan Description

The state provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii (SLH) of 2001, the state contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan, effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues annual financial reports that are available to the public by writing to:

EUTF at 201 Merchant Street, Suite 1520, Honolulu Hawaii 96813

Funding Policy

The state's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The state's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The state's OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The contributions for the DWTRLF for the years ended June 30, 2014, 2013, and 2012 were approximately \$69,100, \$61,100, and \$46,700, respectively.

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 ARC, interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the state's Comprehensive Annual Financial Report (CAFR). The basis for the allocation is the proportionate share of contributions made by each component unit or proprietary fund for retiree health benefits.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

State of Hawaii Drinking Water Treatment Revolving Loan Fund

Allocated OPEB Cost

The following table shows the components of the annual OPEB cost that have been allocated to the DWTRLF for the years ended June 30th:

	<u>2014</u>	<u>2013</u>
Annual OPEB cost	\$ 179,280	\$223,387
Contributions made	(69,104)	(61,074)
Increase in net OPEB obligation	<u>110,176</u>	<u>162,313</u>
Net OPEB obligation, beginning of year	489,814	327,501
Net OPEB obligation, end of year	<u>\$599,990</u>	<u>\$489,814</u>

The following table summarizes the annual OPEB cost, percentage of annual OPEB cost contributed, and net OPEB obligation for the years ending June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Annual OPEB cost	\$179,280	\$223,387
Percentage of annual OPEB cost contributed	38.55%	27.34%
Net OPEB obligation, end of year	\$599,990	\$489,814

Required Supplementary Information and Disclosures

Additional information related to the state's health care and insurance benefit plans, including additional OPEB disclosures and required supplementary information is available at the statewide level in the state's CAFR at the following website:

<http://ags.hawaii.gov/accounting/annual-financial-reports/>