FINANCIAL AUDIT OF THE
STATE OF HAWAII
DEPARTMENT OF HEALTH
WATER POLLUTION CONTROL REVOLVING FUND

Fiscal Year Ended June 30, 2015

Submitted by
The Auditor
State of Hawaii

N&K CPAs, Inc.
ACCOUNTANTS|CONSULTANTS

AMERICAN SAVINGS BANK TOWER | 1001 BISHOP STREET, SUITE 1700 | HONOLULU, HAWAII 96813-3696
T (808) 524-2255 F (808) 523-2090 | nkcpa.com

STATE OF HAWAII
DEPARTMENT OF HEALTH
WATER POLLUTION CONTROL REVOLVING FUND

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STATE OF HAWAII
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PART I

FINANCIAL SECTION

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1001 BISHOP STREET, SUITE 1700
HONOLULU, HAWAII 96813-3696
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INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Hawaii, Department of Health, Water Pollution Control Revolving Fund (the "Fund"), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2015, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B, the financial statements of the Fund, 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 Fund. 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, 2015, the respective changes in its financial position, or its cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Notes B and I to the financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* that establishes standards for the accounting and financial reporting for pensions that are provided to employees of state and local governments. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the 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 Fund's basic financial statements. The supplementary information on pages 33 through 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Fund's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
December 16, 2015

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF NET POSITION
June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current assets		
Equity in cash and cash equivalents and investments in State Treasury	$	143,384,692
Loan fees receivable		264,046
Accrued interest on loans		419,734
Other accrued interest		165,501
Due from State Treasury		28,113
Due from federal government - SRF		15,744
Current maturities of loans receivable		27,318,065
Total current assets		171,595,895
ARRA advances		7,438,075
Loans receivable, net of current maturities		307,239,563
Capital assets, net of accumulated depreciation		11,381
Total assets		486,284,914
Deferred outflows of resources related to pensions		262,038
Total assets and deferred outflows of resources	$	486,546,952

See accompanying notes to the financial statements.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF NET POSITION (Continued)
June 30, 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current liabilities		
Accounts payable and other accrued liabilities	$	260,836
Total current liabilities		260,836
Accrued vacation, net of current portion		205,390
Net pension liability		2,393,166
Other postemployment benefits		1,407,139
Total liabilities		4,266,531
Deferred inflows of resources		54,775
Net position		
Net investment in capital assets		11,381
Restricted - expendable		482,214,265
Total net position		482,225,646
Total liabilities, deferred inflows of resources, and net position	$	486,546,952

See accompanying notes to the financial statements.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Fiscal Year Ended June 30, 2015

OPERATING REVENUES		
Interest income from loans	$	2,040,291
Administrative loan fees		1,141,613
Total operating revenues		3,181,904
OPERATING EXPENSES		
Administrative		2,135,203
Principal forgiveness for ARRA		5,050,316
Principal forgiveness for SRF		1,089,898
Total operating expenses		8,275,417
Operating loss		(5,093,513)
NONOPERATING REVENUES		
State contributions		2,200,000
Federal contributions		10,381,374
Other interest income		591,448
Total nonoperating revenues		13,172,822
Change in net position		8,079,309
NET POSITION		
Beginning of year, as previously reported		476,502,323
Prior period adjustment		(2,355,986)
Beginning of year, as restated		474,146,337
End of year	$	482,225,646

See accompanying notes to the financial statements.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2015

Cash flows from operating activities		
Payments to employees	$	(1,684,347)
Payments to vendors		(195,915)
Net cash used in operating activities		(1,880,262)
Cash flows from noncapital financing activities		
State contributions		2,200,000
Federal contributions		10,194,187
Net cash provided by noncapital financing activities		12,394,187
Cash flows from investing activities		
Interest income		2,117,855
Administrative loan fees		1,153,534
Principal repayments on loans		27,041,763
Disbursement of loan proceeds		(26,668,520)
Other interest income		533,439
Net cash provided by investing activities		4,178,071
Net increase in cash		14,691,996
Equity in cash and cash equivalents and investments in State Treasury		
Beginning of year		128,692,696
End of year	$	143,384,692

See accompanying notes to the financial statements.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
STATEMENT OF CASH FLOWS (Continued)
Fiscal Year Ended June 30, 2015

Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$	(5,093,513)
Adjustment to reconcile operating loss to		
net cash used in operating activities		
Depreciation		11,480
Principal forgiveness for ARRA		5,050,316
Principal forgiveness for SRF		1,089,898
Interest income from loans		(2,040,291)
Administrative loan fees		(1,141,613)
Pension expense		85,203
In-kind contribution from the Environmental Protection Agency		219,225
Change in assets, deferred outflows, liabilities, and deferred inflows		
Due from State Treasury		21,832
Accounts payable and other accrued liabilities		30,952
Net deferred outflows / inflows of resources related to pensions		(255,286)
Other postemployment benefits		141,535
Net cash used in operating activities	$	(1,880,262)

Disclosure of noncash investing, capital, and financing activities

In-kind contribution from the Environmental Protection Agency	$	219,225

See accompanying notes to the financial statements.

NOTE A - ESTABLISHMENT AND PURPOSE OF THE FUND

The Clean Water Act of 1987 (the "Act") provides for the U.S. Environmental Protection Agency ("EPA") to make grants to states for the purpose of making loans to finance the construction of publicly owned wastewater treatment works, implementation of a non-point source pollution control management program, and implementation of an estuary conservation and management program. Under the Act, the State of Hawaii ("State") was eligible to receive up to $72 million in federal capitalization grants. Although the Act expired on September 30, 1995, the State continues to receive capitalization grants from the EPA.

In 1988, the State Legislature established the Water Pollution Control Revolving Fund (the "Fund") to implement the federal loan program. The Fund is administered by the Wastewater Branch, Environmental Management Division of the State of Hawaii, Department of Health (the "Department"). The Fund's primary purpose is to provide loans in perpetuity to county and State agencies for the construction of wastewater 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 agreement date, whichever is later.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

(1) ***Basis of 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 Department that is attributable to the transactions of the Fund and do not purport to present the financial position, results of operations or cash flows of the State or Department.

The financial statements of the Fund are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles prescribed by the Governmental Accounting Standards Board ("GASB") for proprietary funds.

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 providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

expenses. The principal operating revenues of the Fund are interest income and administrative loan fees on loans made to county governments. Federal grants, State matching funds and interest income from sources other than loans are reported as nonoperating revenues. Principal forgiveness for loans and ARRA advances are reported as operating expenses.

(2) ***Use of Estimates*** - In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to the allowances for doubtful accounts, depreciable lives of capital assets, and the pensions and other postemployment benefits ("OPEB") liability.

(3) ***Equity in Cash and Cash Equivalents and Investments in State Treasury*** - All monies of the Fund 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 in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

At June 30, 2015, 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. Cash deposits with the State Treasury are either federally insured or collateralized with obligations of the State or the United States of America. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

(4) ***ARRA Advances*** - The Fund received American Recovery and Reinvestment Act ("ARRA") stimulus money that was used to provide construction grants with no interest or loan fees and 100 percent principal forgiveness upon completion of approved projects. The Fund is allowed to use up to 4 percent of the ARRA funds for administrative costs, and has elected to use $600,000 for administrative costs, with the remaining amount committed to grants. ARRA funds provided to counties have been

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

classified as "ARRA Advances" on the statement of net position upon disbursement. The ARRA advances will be completely forgiven and expensed once all the conditions and compliance requirements have been satisfied by the counties. If conditions and compliance requirements are not met, the grants will convert to loans, requiring repayment of principal, interest and loan fees.

(5) ***Loans Receivable*** - Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the Fund. Interest is calculated from the date that loan funds are disbursed. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. The capitalization grants for federal fiscal years 2010 through 2014 allow for portions of loans to be forgiven upon satisfaction of certain requirements.

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

(7) ***Capital Assets*** - Capital assets are defined as those assets with estimated useful lives greater than one year and with an acquisition cost greater than $5,000. Such assets consist principally of equipment, and are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (5-7 years) of the respective assets.

(8) ***Accrued Vacation*** - Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end and is convertible to pay upon termination of employment. The current portion of the accrued vacation balance is included in the accounts payable and other accrued liabilities balance.

(9) ***Accumulated Sick Leave*** - Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or 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 of the State of Hawaii ("ERS"). At June 30, 2015, accumulated sick leave was approximately $1,159,400.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) ***Net Position*** - The Fund's net position is classified into two net position categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets.
Restricted-expendable consists of restricted assets less liabilities whose use by the Fund are subject to externally-imposed stipulations that can be fulfilled by actions of the Fund pursuant to those stipulations or that expire by the passage of time.

(11) ***Administrative Costs*** - The accompanying financial statements do not reflect certain administrative costs, which are paid for by other sources of funding from the Department. These costs include the Department's and State's overhead costs which the Department does not assess to the Fund, since they are not practical to determine.

(12) ***Fund Accounts*** - The Fund consists of State revolving fund ("SRF") and State activity. The SRF activity exclusively consists of federal capitalization grant loans, state matching contributions, federal administration, principal loan repayments, and interest from loans and other earning assets. The State activity consists of the State loan funds, State grant funds, non-point source funds, and State loan administration fees.

(13) ***Expenses*** - The statement of revenues, expenses and changes in fund net position presents expenses on a functional basis. The natural classifications of expenses are presented in the supplemental schedule of operating expenses.

(14) ***Deferred Outflows of Resources and Deferred Inflows of Resources*** - Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

(15) ***Pensions*** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

(16) ***New Accounting Pronouncements*** - During fiscal year, 2015, the Fund implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27,* (GASBS 68) and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68* (GASBS 71). GASBS 68 establishes

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employer, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

GASBS 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

GASBS 71 is required to be implemented simultaneously with GASBS 68 and amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASBS 68 by employers and nonemployer contributing entities.

In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions for GASB Statements 67 and 68 (GASBS 73). This Statement establishes requirements for defined benefit pensions that are not within the scope of GASBS 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASBS 68. It also amends certain provisions of GASBS 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that addresses accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASBS 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of GASBS 67 or for pensions that are within the scope of GASBS 68 are effective for fiscal years beginning after June 15, 2015.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (GASBS 75). This Statement replaces the requirements of GASB Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for other postemployment benefits (OPEB). GASBS 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, GASBS 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. The requirements of this Statement are effective for years beginning after June 15, 2017. Early application is encouraged.

In June 2015, GASB issued Statement No. 76, the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASBS 76). This Statement supersedes Statement No. 55, the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of GASBS 76 is to identify the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for years beginning after June 15, 2015, and should be applied retroactively.

In June 2015, GASB issued Statement No. 77, Tax Abatement Disclosures (GASBS 77). This Statement requires disclosure of tax abatement information about a reporting government’s own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of this Statement are effective for years beginning after December 15, 2015. Early application is encouraged.

Management has not yet determined the effect GASBS 73, 75, 76 and 77 will have on the fund’s financial statements.

NOTE C - LOANS RECEIVABLE

At June 30, 2015, loans receivable from government entities were as follows:

Twenty-one loans receivable from the City & County of Honolulu; due in annual or semi-annual payments, including interest ranging from 0.25% to 3.02%, 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.	$ 246,879,231
Four loans receivable from the County of Hawaii; due in annual or semi-annual payments, including interest ranging from 0.25% to 2.50%, 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.	21,552,212
Twenty-three loans receivable from the County of Maui; due in annual or semi-annual payments, including interest ranging from 0.50% to 2.60%, 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.	47,254,946
Eight loans receivable from the County of Kauai; due in semi-annual or quarterly payments, including interest ranging from 0.25% to 2.50%, 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.	18,871,239
	334,557,628
Less: Current maturities	27,318,065
	$ 307,239,563

NOTE C - LOANS RECEIVABLE (Continued)

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

Fiscal Year Ending June 30,	Amount
2016	$ 27,318,065
2017	26,756,078
2018	26,509,248
2019	25,503,718
2020	24,026,186
Thereafter	204,444,333
	$ 334,557,628

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

In fiscal year 2015, $6,140,214 in loans were forgiven. All loans forgiven were in accordance with the required conditions.

At June 30, 2015, $12,679,850 and $6,630,851 were committed to be loaned to the County of Hawaii and County of Maui, respectively, under existing loan agreements.

NOTE D - CONTRIBUTED CAPITAL

The Fund is capitalized by grants from the EPA and matching funds from the State. The following summarizes the EPA capitalization grants and ARRA funds awarded, amounts drawn on each grant, and the balances available for future loans at June 30, 2015:

Budget Period	Amount	Total Draws at June 30, 2014	Total 2015 Cash Draws	Funds Available
04/01/11 - 06/30/17	$ 15,781,000	$ 15,571,968	$ 209,032	$ --
09/30/11 - 06/30/18	11,436,000	10,978,748	393,613	63,639
09/28/12 - 06/30/19	10,946,000	9,963,841	61	982,098
09/30/13 - 06/30/20	10,341,000	350,018	9,591,420	399,562
10/01/14 - 06/30/21	10,859,000	--	61	10,858,939
	$ 59,363,000	$ 36,864,575	$ 10,194,187	$ 12,304,238

NOTE D - CONTRIBUTED CAPITAL (Continued)

The State is required to match 20 percent of the estimated amount of the grant from the EPA and does so in the year that the capitalization grant is awarded. The State is not required to match funds for ARRA awards. Through June 30, 2015, the Fund was in compliance with the 20 percent State matching requirement. The required State match through June 30, 2015 approximated $54.6 million, of which approximately $52.4 million has been utilized and approximately $2.2 million was available to be loaned out.

NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Additions	Retirements/ Disposals	Balance at June 30, 2015
Equipment	$ 84,518	$ --	$ --	$ 84,518
Accumulated Depreciation	(61,657)	(11,480)	--	(73,137)
	$ 22,861	$ (11,480)	$ --	$ 11,381

NOTE F - ACCRUED VACATION

At June 30, 2015, long-term obligations included accrued vacation as follows:

Balance at July 1, 2014	$ 291,843
Increase	105,586
Decrease	(101,989)
Balance at June 30, 2015	295,440
Less: Current portion	(90,050)
Noncurrent portion	$ 205,390

NOTE G - EMPLOYEE BENEFIT PLANS

(1) *Employees' Retirement System*

Plan Description - All eligible employees of the State and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: http://ers.ehawaii.gov/.

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

Benefits Provided - The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement plans. The three plans provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees 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 employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Plan

Retirement Benefits - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

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

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

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, 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.

Contributory Plan for Employees 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 5 years of credited service are eligible to retire at age 55.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 5 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 66-2/3% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 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 1 year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

Contributory Plan for Employees Hired After June 30, 2012

Retirement Benefits - Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 10 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 is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Plan for Employees 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 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

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

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.

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

Ordinary death benefits are available to employees who were active at time of death with at least 5 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 10 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 Plan for Employees 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 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

Disability and Death Benefits - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 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 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death 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 established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2015 were 22.00% for police and firefighters and 15.50% for all other employees. Contributions to the pension plan from the Fund were $255,286 for the fiscal year ended June 30, 2015.

The employer is required to make all contributions for members in the noncontributory plan. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary and police and firefighters are required to contribute 12.2% of their salary. For contributory plan employees hired after June 30, 2012, judges and elected officials are required to contribute 9.8% of their salary and police and firefighters are required to contribute 14.2% of their salary. Hybrid plan members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0% of their salary.

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Fund reported a liability of $2,393,166 for its proportionate share of net pension liability of the State. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Fund'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, 2014, the Fund's proportion of the State's proportion was 0.0100%, which did not change from its proportion at June 30, 2013.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2015, the Fund recognized pension expense of $85,203. At June 30, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,902	$ (133)
Net difference between projected and actual earnings on pension plan investments	--	(54,642)
Changes in proportion and difference between Fund contributions and proportionate share of contributions	850	--
Fund contributions subsequent to the measurement date	255,286	--
	$ 262,038	$ (54,775)

The $255,286 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

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

Fiscal Year Ending June 30,	Amount
2016	$ (12,272)
2017	(12,272)
2018	(12,272)
2019	(12,272)
2020	1,065
Total	$ (48,023)

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth	3.50%
Salary increases, including inflation at 3.00%	
Police and fire employees	5.00% to 19.00%
General employees	4.00% to 8.00%
Teachers	4.50% to 8.50%
Investment rate of return, including inflation at 3.00%	7.75%
Cost of living adjustments (COLAs)	2.50% / 1.50%
COLAs are not compounded; and are based on original pension amounts	

Post-retirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Statistic Tables for police and firefighters. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates its experience studies every five years.

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

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

Asset class	Target Allocation	Long-term Expected Arithmetic Rate of Return
Domestic equity	30.0%	8.5%
Non-U.S. equity	26.0%	9.0%
Fixed income	20.0%	3.1%
Real estate	7.0% *	8.5%
Private equity	7.0% *	11.8%
Real return	5.0% *	6.1%
Covered calls	5.0%	7.7%
	100.0%	

* The real estate, private equity, and real return targets will be the percentage actually invested up to 7%, 7%, and 5%, respectively of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate - The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

Sensitivity of the Fund's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Fund's proportionate share of the net pension liability	$ 3,034,913	$ 2,393,166	$ 1,751,420

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

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

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

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

Payables to the Pension Plan - At June 30, 2015, there were no amounts payable to the ERS.

(2) *Deferred Compensation Plan*

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

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

(3) *Post-Employment Healthcare and Life Insurance Benefits*

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

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 Annual Required Contribution ("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 CAFR. The basis for the allocation is the proportionate share of the State's total covered employee headcount by each component unit or proprietary fund for retiree health benefits.

NOTE G - EMPLOYEE BENEFIT PLANS (Continued)

Annual OPEB Cost - The components of the allocated annual OPEB cost (annual required contribution, interest on net OPEB obligation, and adjustment to annual required contribution) are insignificant to the Fund's financial statements. The following table shows the allocated annual OPEB cost that has been allocated to the Fund for the year ended June 30, 2015:

Annual OPEB cost	$	265,070
Less: Contributions made		(123,535)
Increase in net OPEB obligation		141,535
Net OPEB obligation		
Beginning of year		1,265,604
End of year	$	1,407,139

Amount of Contributions Made - Contributions are financed on a pay-as-you-go basis and the Fund's contributions for the fiscal years ended June 30, 2015, 2014 and 2013, approximated $124,000, $112,000, and $105,000, respectively.

Required Supplementary Information and Disclosures - The State's CAFR includes the required footnote disclosures and supplementary information on the State's OPEB plan.

NOTE H - INSURANCE COVERAGE

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

The Department is covered by the State's self-insured workers' compensation program for medical expenses of injured Department employees. However, the Department is required to pay temporary total and temporary partial disability benefits as long as the employee is on the Department'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.

NOTE I - PRIOR PERIOD ADJUSTMENT

The Fund adopted the requirements of GASBS 68, as amended, which resulted in a decrease in beginning net position at June 30, 2014. The impact on beginning net position is summarized as follows:

	Amount
Net position at June 30, 2014, as previously reported	$ 476,502,323
Cumulative effect of applying GASBS 68, as amended	
Net pension liability at June 30, 2013	(2,574,068)
Deferred outflows of resources - employer and employee contributions made subsequent to the measurement date of the beginning net pension liability but prior to June 30, 2014	218,082
	$ 474,146,337

Management of the Fund concluded that it was not practical to determine the beginning amounts of all pension-related deferred inflows of resources and deferred outflows of resources. Accordingly, as permitted under the provisions of GASBS 68, as amended, the Fund has only reported the beginning deferred outflow of resources resulting from employer and employee pension contributions made subsequent to the measurement date of the beginning net pension liability but prior to June 30, 2014.

SUPPLEMENTARY INFORMATION

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CASH BALANCE
Fiscal Year Ended June 30, 2015

RECEIPTS	
Principal repayments on loans	$ 27,041,763
Interest income from loans	2,117,855
State contributions	2,200,000
Federal contributions	10,194,187
Administrative loan fees	1,153,534
Other interest income	533,439
Total receipts	43,240,778
DISBURSEMENTS	
Disbursement of loan proceeds	26,668,520
Administrative	1,880,262
Total disbursements	28,548,782
Excess of receipts over disbursements	14,691,996
EQUITY IN CASH AND CASH EQUIVALENTS AND INVESTMENTS IN STATE TREASURY	
Beginning of year	128,692,696
End of year	$ 143,384,692

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
COMBINING STATEMENT OF NET POSITION
June 30, 2015

	State Revolving Fund Activity	State Activity	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	$ 140,502,409	$ 2,882,283	$ 143,384,692
Loan fees receivable	--	264,046	264,046
Accrued interest on loans	419,734	--	419,734
Other accrued interest	165,501	--	165,501
Due from State Treasury	--	28,113	28,113
Due from State (to SRF)	22,632	(22,632)	--
Due from federal government - SRF	15,744	--	15,744
Current maturities of loans receivable	27,318,065	--	27,318,065
Total current assets	168,444,085	3,151,810	171,595,895
ARRA advances	7,438,075	--	7,438,075
Loans receivable, net of current maturities	307,239,563	--	307,239,563
Capital assets, net of accumulated depreciation	--	11,381	11,381
Total assets	483,121,723	3,163,191	486,284,914
Deferred outflows of resources	--	262,038	262,038
Total assets and deferred outflows of resources	$ 483,121,723	$ 3,425,229	$ 486,546,952

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
COMBINING STATEMENT OF NET POSITION (Continued)
June 30, 2015

	State Revolving Fund Activity	State Activity	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities			
Accounts payable and other accrued liabilities	$ 83,088	$ 177,748	$ 260,836
Total current liabilities	83,088	177,748	260,836
Accrued vacation, net of current portion	--	205,390	205,390
Net pension liability	--	2,393,166	2,393,166
Other postemployment benefits	--	1,407,139	1,407,139
Total liabilities	83,088	4,183,443	4,266,531
Deferred inflows of resources	--	54,775	54,775
Net position			
Net investment in capital assets	--	11,381	11,381
Restricted - expendable	483,038,635	(824,370)	482,214,265
Total net position	483,038,635	(812,989)	482,225,646
Total liabilities, deferred inflows of resources and net position	$ 483,121,723	$ 3,425,229	$ 486,546,952

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Fiscal Year Ended June 30, 2015

	State Revolving Fund Activity	State Activity	Total
OPERATING REVENUES			
Interest income from loans	$ 2,036,818	$ 3,473	$ 2,040,291
Administrative loan fees	--	1,141,613	1,141,613
Total operating revenues	2,036,818	1,145,086	3,181,904
OPERATING EXPENSES			
Administrative	632,607	1,502,596	2,135,203
Principal forgiveness for ARRA	5,050,316	--	5,050,316
Principal forgiveness for SRF	1,089,898	--	1,089,898
Total operating expenses	6,772,821	1,502,596	8,275,417
Operating loss	(4,736,003)	(357,510)	(5,093,513)
NONOPERATING REVENUES			
State contributions	2,200,000	--	2,200,000
Federal contributions	10,381,374	--	10,381,374
Other interest income	591,448	--	591,448
Total nonoperating revenues	13,172,822	--	13,172,822
Interfund transfers	431,708	(431,708)	--
Change in net position	8,868,527	(789,218)	8,079,309
NET POSITION			
Beginning of year, as previously reported	474,170,108	2,332,215	476,502,323
Prior period adjustment	--	(2,355,986)	(2,355,986)
Beginning of year, as restated	474,170,108	(23,771)	474,146,337
End of year	$ 483,038,635	$ (812,989)	$ 482,225,646

Note: Interest earnings from State Activity are deposited into the State Revolving Fund Activity.

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
SCHEDULE OF OPERATING EXPENSES
Fiscal Year Ended June 30, 2015

	State Revolving Fund Activity	State Activity	Total
Principal forgiveness for ARRA	$ 5,050,316	$ --	$ 5,050,316
Principal forgiveness for SRF	1,089,898	--	1,089,898
Personnel	353,322	1,273,888	1,627,210
Intergovernmental personnel agreement expenses	219,225	--	219,225
Services rendered by other State agencies	59,026	32,173	91,199
Travel	52	36,592	36,644
Professional services	--	23,179	23,179
Depreciation	--	11,480	11,480
Rental	583	10,060	10,643
Telephone	346	9,412	9,758
Training	--	5,653	5,653
Office and other supplies	--	3,885	3,885
Advertising and printing	--	3,385	3,385
Dues and subscriptions	--	1,063	1,063
Pension expense	--	85,203	85,203
Miscellaneous	53	6,623	6,676
Total operating expenses	$ 6,772,821	$ 1,502,596	$ 8,275,417

PART II

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

AMERICAN SAVINGS BANK TOWER
1001 BISHOP STREET, SUITE 1700
HONOLULU, HAWAII 96813-3696
T (808) 524-2255 F (808) 523-2090

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

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Hawaii, Department of Health, Water Pollution Control Revolving Fund (the "Fund"), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated December 16, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

N&K CPAs, INC.

Honolulu, Hawaii
December 16, 2015

PART III

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR A FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

AMERICAN SAVINGS BANK TOWER
1001 BISHOP STREET, SUITE 1700
HONOLULU, HAWAII 96813-3696
T (808) 524-2255 F (808) 523-2090

REPORT ON COMPLIANCE WITH THE REQUIREMENTS APPLICABLE TO THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY'S CLEAN WATER STATE REVOLVING FUNDS PROGRAM IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii

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

We have audited the State of Hawaii, Department of Health, Water Pollution Control Revolving Fund's (the "Fund") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs* that could have a direct and material effect on its Capitalization Grants for Clean Water State Revolving Funds Program (the "Program") for the fiscal year ended June 30, 2015.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Fund's Program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Program. However, our audit does not provide a legal determination of the Fund's compliance.

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

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 Program for the fiscal year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on its program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its program and to test and report on internal control over compliance, in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Accordingly, this report is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawaii
December 16, 2015

PART IV

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

State of Hawaii
Department of Health
Water Pollution Control Revolving Fund
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ended June 30, 2015

Ref.
No.

2014-01 Reporting (Significant Deficiency)

Federal agency: Environmental Protection Agency ("EPA")
CFDA No.: 66.458
Program: Capitalization Grants for Clean Water State Revolving Funds
Federal award No. and award year: FS-15000114-0 9/30/2013 - 6/30/2020

During the prior year testing of the reporting compliance requirement, it was noted that the Fund did not meet the deadline for submission of reports under the Federal Funding Accountability and Transparency Act ("FFATA") for subrecipient awards made from its fiscal year 2014 federal award. The Fund did not establish adequate procedures to ensure compliance with FFATA reporting requirements.

It was recommended that the Fund implement policies and procedures to maintain adequate supporting documentation of the submission of the required FFATA reporting for applicable subrecipient awards.

Status

Resolved. No similar instances noted.

Ref.
No.

2014-02 Reporting

Federal agency:	Environmental Protection Agency ("EPA")	
CFDA No.:	66.458	
Program:	Capitalization Grants for Clean Water State Revolving Funds	
Federal award No. and award year:	FS-15000209-0	10/1/2008 - 6/30/2014

During the prior year testing of the reporting compliance requirement, it was noted that the Fund did not meet the deadline for submission of reports under Section 1512 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5. The fund did not establish adequate policies and procedures to ensure compliance with ARRA reporting requirements.

It was recommended that the Fund implement policies and procedures to ensure that reports are submitted in a timely manner for applicable ARRA awards.

Status

Resolved. No similar instances noted.