REPORT TO THE TWENTY-NINTH LEGISLATURE
STATE OF HAWAII
2016

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

NOVEMBER 2015

Table of Contents

OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

This annual report is submitted to the United States Environmental Protection Agency (EPA) in compliance with the requirements of Title 40, Code Federal Regulation 35.3570(a). It covers the reporting period State Fiscal Year (SFY) July 1, 2014 to June 30, 2015 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 2015.

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.

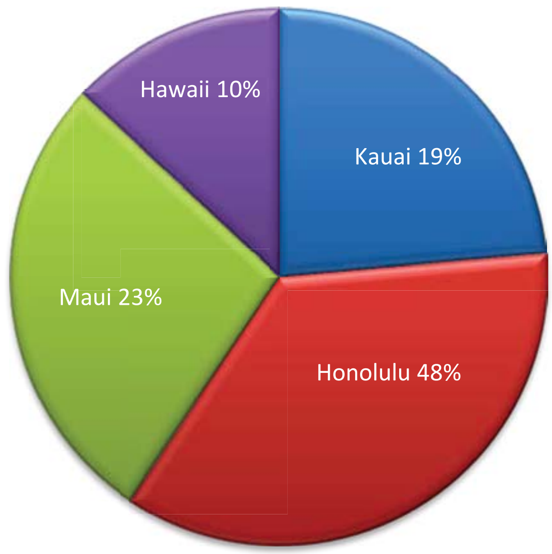
Hawaii’s program provides low-interest loans to its four County water departments for the construction of drinking water infrastructure projects. These projects help to achieve or maintain compliance with drinking water standards, improve and expand their drinking water infrastructure, and help protect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

C. MAJOR INITIATIVES

From SFY 1997 through SFY 2015 the DWSRF has issued $210,688,976.44 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	40,511,143.18
Honolulu	100,420,640.04
Maui	48,541,144.68
Hawaii	21,216,048.54
Total	**210,688,976.44**

The chart below illustrates the share of loans issued to each county since the program's inception.



Final Loan Agreements executed in SFY 2015

Borrower	Project Name	Project Location	Loan Amount ($)
County of Maui, Department of Water Supply	Haliimaile Tank Replacement	Haliimaile, HI	700,000.00
County of Maui, Department of Water Supply	Kula 200 #1 Tank Replacement	Kula, HI	839,782.03
City and County of Honolulu, Board of Water Supply	Honolulu BWS Water System Improvements 1	Honolulu, HI	9,579,895.00
City and County of Honolulu, Board of Water Supply	Honolulu BWS Loan Refinance 1	Honolulu, HI	26,400,910.01
City and County of Honolulu, Board of Water Supply	Kalihi Water System Improvements, Part III	Honolulu, HI	5,068,079.00
County of Kauai, Department of Water	PLH-39, Lihue Baseyard Improvements for the Department of Water	Lihue, HI	4,000,000.00
Total Final Loan Agreements			**46,588,666.04**

Supplemental Loan Agreements executed in SFY 2015

Funding for the following existing projects were increased through a supplemental loan agreement.

Borrower	Project Name	Project Location	Loan Amount ($)
City and County of Honolulu, Board of Water Supply	Ward Avenue 12-Inch and 8-Inch Water Mains	Honolulu, HI	199,721.30
County of Maui, Department of Water Supply	Wakiu Well Replacement	Wakiu, HI	1,850,000.00
Total Supplemental Loan Agreements			**2,049,721.30**

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 $8,845,000.00 and the accompanying State Match that is deposited into the Loan Fund.

This requirement was met with the execution of $46,588,666.04 in final loan agreements.

Final Loan Agreements for all projects identified in Table 5 - Fundable List of the SFY 2015 Intended Use Plan have been executed except for Laupahoehoe 0.5 MG Reservoir and Ahualoa-Honokaa Transmission Waterline. These two (2) projects are in construction, however, the borrower encountered delays in providing DOH the site certifications. These projects have been placed on the SFY 2016 Fundable List.

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 project listed in the table below.

FFATA Project Name	FFATA Amount ($)
Honolulu BWS Water System Improvements 1	8,845,000.00
Total	**8,845,000.00**

4. Additional Subsidy

In SFY 2015 the DWSRF program was required to provide loan recipients between $1,769,000.00 and $2,653,500.00 in additional subsidy. Additional subsidy is required to be committed in final loan agreements within one year of the award of the capitalization grant and is in the form of principal forgiveness.

$15,000.00 of additional subsidy was provided to the *Kula 200 #1 Tank Replacement* project final loan agreement.

$1,769,000.00 of additional subsidy is committed to the *Phase 6 Booster Pump Upgrades* project and the final loan agreement is expected to be executed in October 2015.

5. Reporting Requirements

Project information for projects with executed final loan agreements are reported in the EPA's DWSRF Project Benefits Reporting (PBR) system at https://owsrf.epa.gov/UserLogin/login.aspx.

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 81.1% federal funds to 18.9% state match funds for FFY 2014 appropriation.
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 2015 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 2015, the DWTRLF program collected $780,019.20 in administration loan fee - program income and $1,460,772.27 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%)

The SDWB provided free registration for 33 small water system staff to the 2015 Pacific Water Conference which is the joint conference between the American Water Works Association-Hawaii Section and the Hawaii Water Environment Association (water and wastewater). The conference was a two (2) day event in February with manufacturers' exhibits, technical presentations, and networking opportunities for water system staff. Most of the free registrants also attended the Small System Operator Training: Achieve & Maintain Compliance with the SDWA Pre-Conference Workshop. The 2015 winning Top Ops team consisted of registrants who attended the workshop.

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 22 sanitary surveys of public water systems throughout the state during SFY 2015. These surveys contribute significantly to strengthening the protection of drinking water quality. The SDWB Engineering section has been short one Engineer V staff since October 2014. Compliance sections is now fully staffed as of June 2014. Both sections will likely be doing all surveys in house in SFY 2016.

The program continued to provide certification reviews for laboratories performing safe drinking water analyses. Approximately 12 microbiological laboratories and 37 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, Revised 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 2015 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.

For the period July 1, 2014 to June 30, 2015, Board of Certification of Public Water System Operators met four times. During this period:

68	Applications were received for certification review.
13	Reciprocal certifications were issued.
39	Persons were tested for the WTPO certification. (Examinations administered on July 21, 2014 & January 26, 2015.)
17	Persons passed the WTPO certification examination.
86	Persons were tested for the DSO certification. (Examinations administered on October 27, 2014 and April 27, 2015.)
38	Persons passed the DSO certification examination.
221	WTPO certifications were active as of June 30, 2015.
509	DSO certifications were active as of June 30, 2015.
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

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

In the Spring of 2008 and 2011, notices were sent to all qualifying water systems that WHP-FAP grant funding was available for protection projects. Grants were 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 (contract ending 12/31/2015)
b. Hawaii Department of Water Supply (HDWS) to prepare protection plans and implement protection activities (contract ending 12/31/2015)
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 (contract ended 6/30/2015)

d. West Maui Land Company (WMLC) to prepare protection plans and implement protection activities for the Olowalu and Mahanalui Nui water systems (contract closed 3/16/2015)
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 (contract closed 1/6/2014)
f. Hawaiian Beaches Water Company (HBWC) to prepare protection plans and implement protection activities (contract ended 6/30/2015)
g. Hawaiian Shores Community Association (HSCA) to prepare protection plans and implement protection activities (contract closed 3/18/2015)

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

The WHP-FAP application will be revised and distributed to the public water systems for future protection projects. Future funding may be utilized to:
a. Fund public water systems groundwater protection planning and implementation activities.
b. Fund the evaluation of the impact of reused/recycled wastewater on water resources.
c. Fund cesspool replacement projects in areas that impact drinking water sources.
d. Identify abandoned wells within SWP Areas and fund the sealing and closure of these wells.
e. Fund watershed protection projects that impact drinking water sources.

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 continues 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 establish a self-sustaining continuing education training program for public water system operators starting in August 2012 and continuing through February 2016. This "CEU Training Program" requires the contractor (Hawaii Rural Water Association) to provide a minimum of 300 hours of classroom and on-site training per year to certified operators and other public water system personnel during the contract duration. The CEU Training Program also requires the contractor to develop and implement a comprehensive plan to ensure the training continues beyond the 3-year contract duration.

The success of the program requires the participation of the larger water utilities. Three of the four County water utilities and the State's largest private water utility have committed to supporting the program and frequently send their operators to the available training. In addition, the contractor holds on-site training with curriculum requested by and tailored to a specific water utility. In addition, the contractor is seeking alternative audiences (e.g. wastewater operators and utilities, non-operations personnel, etc.) to expand the program for long-term viability.

The contract uses $600,415.20 from this fund.

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 2015 in August 2014. A copy is available at http://health.hawaii.gov/sdwb/files/2014/08/SFY2015IUPfinal.pdf

The following is a summary of the goals and accomplishments for SFY 2015 and a summary of the program achievements throughout the year.

1. In SFY 2015, six final loan agreements totaling $46,588,666.04 were executed. This is a **42 percent increase** in the dollar amount loaned as compared to SFY 2014.

2. Two supplemental loan agreements were executed that increased the original final loan agreements by $2,049,721.30. These loan agreements provided additional funding for construction.

3. $48,147,166.10 of loan disbursements were approved in SFY 2015, which is an increase of almost **150 percent**, as compared to SFY 2014.

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 2015 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 2015 to offer competitive rates to our borrowers and to encourage larger loans. These rates are in place until June 30, 2016 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

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

   The DWSRF program continues to research 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.

   In the next 1-3 years, the DWSRF Program will be communicating with other public water systems to educate them on the DWSRF process and requirements. A workshop in 2016 will be opened to all public water systems interested in learning about the process and requirements. The public water systems may then begin preparations for when the loans may be provided to them (estimated 3-5 years from now).

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 2014 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 2015. A total of $9,661,595.00, or **115 percent** of the FFY 2014 capitalization grant, was allocated to GPR projects in their executed loan agreements. Detailed information for these projects is in Attachment 21.

Short Term Goals

1. Implement the Loan and Grant Tracking System (LGTS) to track the required items, which include accounting, management, set-asides, compliance and customer service concerns.

   LGTS implementation has been delayed due to technical issues and is expected to go into production on September 3, 2015. Vital engineering and fiscal components of the system will be in operation at that time and the remainder of the components will be in operation by the end of October 2015.

   The in-kind expenses for LGTS for SFY 2015 is $374,545.21

2. Complete the October 22, 2014 *Hawaii SRF Management Study for the CWSRF and DWSRF Programs* (Management Study) and begin implementing the recommendations from the study to streamline the Hawaii DWSRF program and increase the program's pace.

   The DOH began implementing some of the recommendations from the Management Study in SFY 2015.

   - The loan application has been simplified and easier to fill out.
   - The submission of a site certification requirement will be eliminated in SFY 2016.
   - The payment request review process has been further streamlined by reducing the number of hand-offs and documents needed to approve the payment requests.
   - Eliminated the inclusion of the source of funds in the Final Loan Agreements.

   Other recommendations such as a possible reorganization, eliminating the Supplemental Loan Agreements, creating a Master Loan Agreement, and accepting digital signatures for loan agreements are at various stages of implementation. A simplified amortization schedule will be implemented in SFY 2016 after revisions to Hawaii Administrative Rules Chapter 11-65 is approved by the governor.

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

   Most of the Functional Procedures have been updated, however, there are some procedures, such as the State Environmental Review Process, that are awaiting EPA approval of, and other procedures resulting from the Northbridge Management Study that are in the process of being developed. The Operating Agreement will be updated following the completion of the Functional Procedures updates.

4. Continue to follow the implementation of the Capacity Evaluation program and adjust the implementation to meet with the DWSRF loan 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.

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 2015 / FFY 2014 Appropriation was finalized in August 2014. A notice for public participation and input was published on July 17, 2014 with an open comment period until August 15, 2014. 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.

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 state 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.

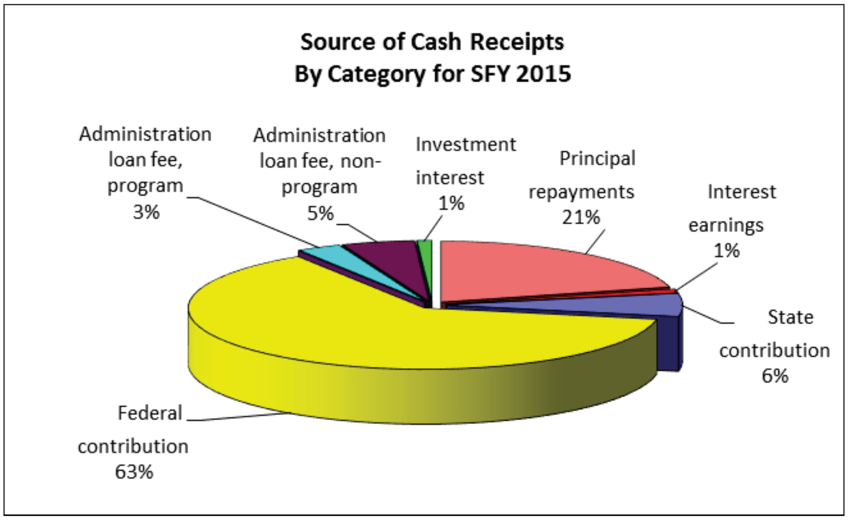
B. ACCOMPLISHMENTS OF THE PROGRAM

1. Sources of Funds

Since the program's inception, the DOH has received a total of $176,266,000.00 [1] in federal capitalization grants. Of this amount, $25,412,831.73 was set aside to support other drinking water program initiatives and administration of the loan program with the remaining $150,853,168.27 earmarked for DWSRF loan funds.

The Graph below illustrates the percentage breakdown of sources of cash for the SRF program by category received for the SFY 2015.

[1] Includes $19.5 million from ARRA and subtraction by EPA of $450,000.00 for LGTS and $101,500.00 of in-kind expenses in 2000, 2001, and 2005. The total listed matches the amount listed in Table 1 of the SFY2015 IUP at http://health.hawaii.gov/sdwb/files/2015/09/SFY2016IUPAmend3.pdf. The total including ARRA and the amounts withheld by EPA is $176,817,500.00.



2. State Match

Pursuant to Act 122/SLH14, the Hawaii State Legislature appropriated monies from general obligation bond funds for the required 20% state match for the FFY 2014 EPA SRF Capitalization Grant. The state match was transferred into the DWTRLF account in October 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, 2015, the DOH committed $132,097,659.71 federal capitalization grant funds and $31,502,884.31 state match funds to DWSRF projects. These funds benefit communities of all sizes throughout the State of Hawaii. See Attachment 1.

The total available for loans since inception was $235,158,265.97. The program committed $259,247,770.44 or 110%, $24,089,504.47 more funds than available.

4. Automated Standard Application for Payments (ASAP):

The program drew $18,979,756.75 of its capitalization grant funds from the ASAP system during SFY 2015. Of this amount, $16,365,691.20 was used for DWSRF loans and $2,614,065.55 for DWSRF set-aside operations.

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 2015 Amount Received ($)
422	Principal from repayments	6,475,400.18
423	Interest from repayments	318,060.04
424	Investment interest	244,113.81

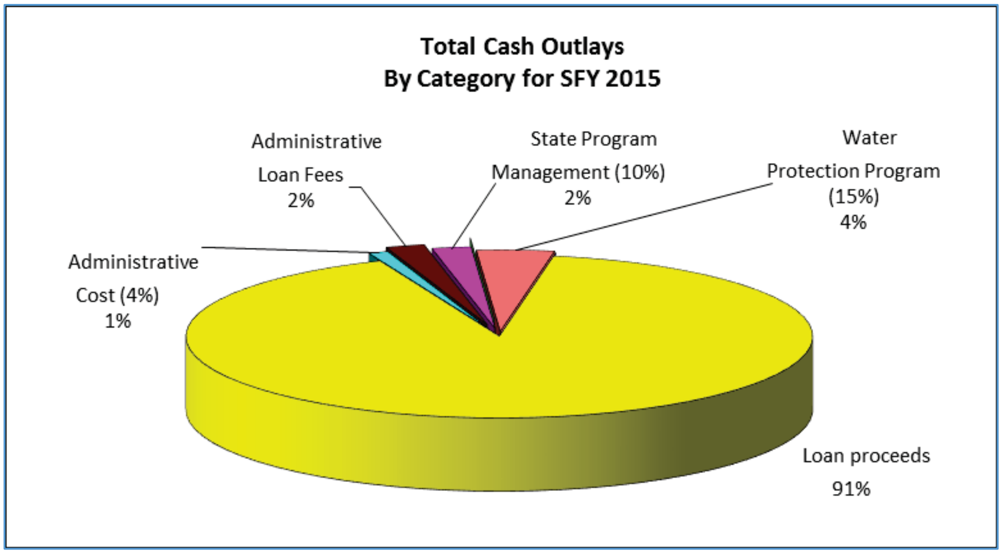
C. PROGRAM AND SET-ASIDE ACTIVITIES

Highlights of the program's activities are as follows:

To administer the DWSRF program and its related drinking water programs, the program spent $52,563,833.58. This consisted of the following program expenses:

Activity Code	Program	SFY 2015 Amount Expended ($)
420, 421, 422	Loan Disbursements	48,375,742.41
426, 430	Administrative Costs	1,578,634.22
427	State Program Management (10%)	884,556.97
428	Small Systems Technical Assistance (2%)	28,941.00
435	Operator Certification (10%)	5,075.73
436	Wellhead Protection Program (15%)	1,364,534.86
437	Technical or Financial Assistance to PWSs (15%)	326,348.39
Total Program Expenditures		**52,563,833.58**

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



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	100,420,640.04	Aa1/AA+	39%
County of Hawaii, Water Board	43,255,766.54	Aa2/AA-	16%
County of Kauai, Board of Water Supply	40,511,143.18	Aa2/AA-	16%
County of Maui, Board of Water Supply	75,060,220.68	Aa1/AA+	29%
Totals	**259,247,770.44**		**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 2015. The audit is in progress.

The auditor’s report for the SFY 2014 DWSRF financial statements was published on November 28, 2014. The audit report reads, “In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2014, 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.”

The SFY 2015 auditor’s report should be completed and published sometime in November 2015.

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.

LIST OF ATTACHMENTS

Summary of the Drinking Water Treatment Revolving Loan Fund

Actual 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 Upgrades-Phase II [Interim 11/15/00]	1.37%	739,210.00
3	7/15/2001	410-0001 Damage Repairs to Kokolau Tunnel [Interim 11/15/00]	1.37%	1,663,201.02
4	10/15/2001	101-0001 Saddle Road Well "A" [Interim 11/15/00]	1.37%	1,610,048.59
5	4/15/2002	133-0001 Kukuihaele Well "A" (Replace Waiulili Spring) [Interim 7/15/01]	1.01%	334,240.00
6	4/15/2002	139-0001 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%	2,326,821.30
8	4/15/2002	107-0001 Kaieie Mauka (Replace Kaieie & Papaikou Springs) [Interim 7/15/01]	1.01%	2,245,936.00
9	4/15/2002	406-0001 Kekaha Well (Kapilimao Well) [Interim 7/15/01]	1.01%	862,882.74
10	3/15/2004	413-0002 Wailua Homesteads Well No. 3 [Interim 7/15/03]	0.54%	397,736.50
11	7/15/2003	404-0001 Rehabilitation of 27" Steel Pipe, Hanapepe-Eleele Water System [Interim 5/15/02]	0.99%	691,134.00
12	7/15/2003	404-0002 Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well #3 [Interim 5/15/02]	0.99%	1,243,976.74
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 Ornellas 0.2 MG Tank Refurbish [Interim 7/15/03]	0.58%	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 Pailani 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 Kunia Wells II-Nitrate Treatment Facility [Interim 3/15/04]	0.10%	395,054.20
21	1/15/2007	408-0002 Poipu Road 16 inch Main Replacement [Interim 1/15/05]	0.16%	5,158,885.83
22	2/15/2007	105-0001 Honomu Well "A" (Replace Akaka Falls Spring) [Interim 12/15/03]	0.41%	3,968,080.00
23	3/15/2007	213-0003 Kamole Weir Water Treatment Facility Clear Well Replacement [Interim 1/15/05]	0.15%	9,704,849.00
24	3/15/2008	331-0018 Pearl City Water System Improvements [Interim 5/15/07]	0.01%	1,255,435.00
25	3/15/2008	331-0024 Alewa Water System Improvements [Interim 5/15/07]	0.01%	2,666,036.00
26	3/15/2008	331-0025 Liliha Water System Improvements, Phase B [Interim 5/15/07]	0.01%	1,934,183.88
27	2/15/2009	214-0009 Napili Well "A" Site Improvements [2/15/09]	0.37%	1,629,992.00
28	3/15/2009	400-0001 Stable 1.0 MG Tank & Connecting Waterline [Interim 1/15/08]	0.26%	7,274,997.83
29	4/15/2009	154-0001 Hakalau Spring Improvement [4/15/09]	0.62%	606,167.00
30	5/15/2009	331-0031 Oahu Ave and Huelani Drive 8-inch Mains [Interim 5/15/08]	0.36%	1,324,452.00
31	8/15/2009	406-0005 Kaumuali'I Highway 12-inch Main Replacement Elepaio Road to Huakai Road, Job No. 05-04, KW-27, Kekaha-Waimea, Kaua'I, Hawaii [Interim 8/15/09]	0.32%	3,989,537.33
32	8/15/2009	434-0003 Waha, Wawae, and Niho Roads Main Replacement, Job No. 05-07, K-07, LO-13, at Kalaheo, Kaua'I, Hawaii [Interim 8/15/09]	0.32%	1,936,018.00
33	1/15/2010	406-0003 Kapilimao 0.5 MG Tank [Interim 8/15/08]	0.42%	3,793,779.17
34	8/15/2010	133-0002 Kapulena Well Development Phase 1 (Interim 11/15/09)	0.00%	1,000,154.00
35	8/15/2010	130-0004 Waimea Water Treatment Plant Sludge Drying Beds (Interim 8/15/10)	0.12%	3,458,753.00
36	4/15/2011	213-0006 Makawao Waterline Improvements- Ai Street, Kehau, Mole, & Malu Place (Interim 4/15/11)	0.00%	674,409.00
37	8/15/2011	213-0008 Kamole Water Treatment Plant High Lift Pumps (Interim 8/15/11)	0.35%	1,794,000.00
38	8/15/2011	247-0005 Upper Omaopio Road Tank Replacement (Interim 8/15/11)	0.00%	1,093,228.00
39	8/15/2011	247-0006 Middle and Lower Omaopio Road Tanks Replacements (Interim 8/15/11)	0.35%	576,043.00
40	11/15/2011	212-0007 Lower Paia Water Tank Replacement [Interim 11/15/11]	0.35%	1,012,994.00
41	4/15/2012	212-0010 Uluniu Road and Ewa Place Waterline Replacement (Interim 11/15/11)	1.00%	850,000.00
42	8/15/2012	106-0001 Kulaimano Production Well and Supporting Facilities (Interim 8/15/11)	1.00%	1,239,445.80
43	8/15/2012	217-0005 Wakiu Well Replacement (Interim 11/15/11)	0.50%	2,248,485.65
44	8/15/2012	400-0004 Job No. PLH-03, Kahili Horizontal Directional Drilled Well (Interim 2/15/12)	1.00%	678,402.00

Summary of the Drinking Water Treatment Revolving Loan Fund

Actual and Planned Binding Commitments (continued)

No.	Binding Commitment Date	Project Description (Project Name - Based on the Final Loan Agreement)	Rate	Loan Amount
45	12/15/2012	129-0002 Kynnersley #1- 0.3 MG Reservoir Replacement (Interim 11-15-11)	1.00%	2,394,278.00
46	4/15/2013	213-0009 Kaupakalua Road Waterline Improvements Phase 1 (Interim 2/15/12)	1.00%	846,047.00
47	4/15/2013	331-0038 Kealakaha Dr., Pooholua Dr., and Waipao Pl 8-in Mains (Commitment 10/10/12)	1.00%	1,064,405.29
48	4/15/2013	331-0049 Kona Street 8-inch Main (Commitment 10/10/12)	0.50%	4,399,728.00
49	4/15/2013	331-0057 Ward Avenue 12-inch and 8-inch Water Mains (Commitment 10/10/12)	1.00%	2,296,015.30
50	4/15/2013	413-0008 Job No. 02-15, WK28, Wailua Houselots Main Replacement, Phase I (Interim 2/15/12)	0.50%	4,463,084.00
51	5/15/2013	215-0003 Waikamoi Flume Repair/Replacement (Commitment 11/9/12)	0.00%	8,362,760.00
52	8/15/2013	215-0004 Olinda 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	247-0004 Piiholo Water Treatment Plant Improvements - Organic Carbon Reduction (Interim 2/15/12)	0.50%	4,960,519.00
54	1/15/2014	213-0014 Paia-Kuau Water System Improvements (Commitment 4/22/13)	1.00%	815,447.00
55	2/15/2014	212-0011 Maui Meadows Booster Pump Station #18 Improvements (Commiment 4/22/13)	1.00%	1,100,000.00
56	4/15/2014	212-0009 Wailuku Well Development (Interim 2/15/12)	1.00%	2,000,000.00
57	5/15/2014	331-0042 Foster Village Water System Improvements, Part III (Commitment 6/24/13)	1.00%	1,031,787.00
58	5/15/2014	331-0052 Mapunapuna Water System Improvements, Part I (Commitment 6/24/13)	0.50%	5,727,070.00
59	5/15/2014	331-0062 Kamehameha Highway 16-Inch and 8-Inch Mains (Heeia) (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%	3,720,373.00
62	10/15/2014	HBWS-0002 Honolulu BWS Loan Refinance 1 (No Commitment)	0.00%	26,400,910.01
63	10/15/2014	331-0047 Kalihi Water System Improvements, Part III (Commitment 4/29/14)	0.50%	5,068,079.00
64	11/15/2014	HBWS-0001 Honolulu BWS Water System Improvements 1 (Commitment 9/15/14)	0.00%	9,579,895.00
65	12/15/2014	400-0011 PLH-39, Lihue Baseyard Improvements for the Department of Water (No Commitment)	0.50%	4,000,000.00
66	1/15/2015	213-0015 Haliimaile Tank Replacement (Commit 8/27/13)	1.00%	700,000.00
67	4/15/2015	215-0010 Kula 200 #1 Tank Replacement (Commit 8/27/13)	1.00%	839,782.03
		TOTAL FINAL PROJECTS		**$ 210,688,976.44**

Planned (Future) Binding Commitments

No.	Date		Project Description (Project Name - Based on the Commitment Letter)	Rate	Loan Amount
1	8/27/2013	C	215-0009 Phase 6 Booster Pump Upgrades	0.50%	4,619,076.00
2	9/15/2014	C	102-0001 Laupahoehoe 0.5 MG Reservoir	0.50%	4,159,746.00
3	8/30/2013	C	161-0002 Ahualoa-Honokaa Transmission Waterline	1.00%	2,319,148.00
4	6/1/2015	C	130-0003 Waimea WTP Microfiltration	0.00%	12,896,000.00
5	4/15/2015	C	MDWS-0001 Source Generator Installation - 4 Sites	1.00%	1,200,000.00
6	4/15/2015	C	233-0002 Kualapuu MCC Upgrades	1.00%	500,000.00
7	4/15/2015	C	212-0018 Wailuku Heights Tank 30 Booster Replacement	1.00%	1,200,000.00
8	5/28/2014	C	133-0004 Kapulena Well Development Phase 2 (Production Well and 0.3 MG Reservoir)	1.00%	2,664,824.00
9	4/15/2015	C	247-0008 Omaopio 2.1 MG Tank Replacement	0.50%	4,000,000.00
10	4/15/2015	C	212-0015 Iao Surface Water Treatment Plant Upgrades	0.00%	15,000,000.00
			TOTAL PLANNED (FUTURE) COMMITMENTS		**$ 48,558,794.00**
			TOTAL FINAL & PLANNED (FUTURE) PROJECTS		**$ 259,247,770.44**

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF NET POSITION

June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets	
Cash and cash equivalents in State Treasury (note C)	$ 46,981,972.55
Accrued Interest (note D)	90,936.30
Accrued Interest from Investment	57,177.70
Accrued Loan Fees, program (note D)	230,063.83
Accrued Loan Fees, non-program (note D)	459,844.81
Due from state treasury (note B)	20,459.91
Due from Non SRF	23,837.02
Due from federal government	285,866.43
Current maturities of loans receivable (note D)	7,742,427.41
Total Current Assets	55,892,585.96
Loans Receivable, net of current maturities (note D)	108,282,668.06
Capital Assets	
Office Equipment (notes B and F)	2,348,737.47
Less: Accumulated Depreciation (notes B and F)	(1,469,731.48)
Total Office Equipment	879,005.99
Transportation Equipment (notes B and F)	59,996.50
Less: Accumulated Depreciation (notes B and F)	(30,639.87)
Total Transportation Equipment	29,356.63
Total Capital Assets	908,362.62
Total Assets	$ 165,083,616.64
Deferred outflows of resources (note B)	$ 274,488.38
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 165,358,105.02
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current Liabilities	
Payroll Payable	$ 120,144.85
Accounts Payable	171,235.47
Indirect Payable	67,052.70
Due to Non SRF	23,837.02
Accrued Vacation, current portion (note B)	42,553.97
Total Current Liabilities	424,824.01
Accrued Vacation, net of current portion (note B)	159,314.95
Net pension liability (note B and G)	1,342,768.66
Other Post-employment Benefits (note B and G)	744,860.97
Total Liabilities	2,671,768.59
Deferred inflows of resources (note B)	657,294.64
Net Position	
Net Investment in Capital Assets	908,362.62
Restricted	161,120,679.17
Unrestricted	-
Total Net Position	162,029,041.79
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 165,358,105.02

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

For the Year Ended June 30, 2015

OPERATING REVENUES	
Interest earnings from Loans (note B)	$ 331,395.94
Administration loan fee earnings, program (note B)	796,719.32
Administration loan fee earnings, non-program (note B)	1,495,019.29
Total Operating Revenues	2,623,134.55
OPERATING EXPENSES BY PROGRAM ACTIVITIES	
Administrative Cost - 4% set-aside	328,248.03
Admin. Technical Assistance - 4% set-aside	-
State Program Management - 10% set-aside	648,904.77
Source Water Protection - 10% set-aside	-
Capacity Development - 10% set-aside	-
Operator Certification - 10% set-aside	5,087.03
Small Systems Technical Assistance - 2% set-aside	28,941.00
Water Protection Program - 15% set-aside	-
Wellhead Protection Program - 15% set-aside	1,402,229.68
Technical or Financial Assistance - 15% set-aside	260,347.69
Admin Loan Fee - Program	138,329.88
Admin Loan Fee - Non Program	1,472,069.18
Principal forgiveness for SRF	4,246,609.49
Total Operating Expenses	8,530,766.75
OPERATING LOSS	(5,907,632.20)
NON-OPERATING REVENUES	
Federal contribution	19,210,661.70
State matching contribution	1,825,000.00
Interest earnings (loss) from Investment (note B)	242,700.93
Total Non-operating revenues and expenses	21,278,362.63
CHANGE IN NET POSITION	15,370,730.43
Net position - beginning of year as restated (Note H)	146,658,311.36
Net position - end of year	$ 162,029,041.79

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

Cash flows from operating activities:		
Personnel costs		(1,444,656.06)
Payments to vendors		(2,281,069.23)
Net cash flows used by operating activities		(3,725,725.29)
Cash flows from noncapital financing activities:		20,804,756.75
Net cash flows provided by noncapital financing activities		20,804,756.75
Cash flows from capital and related financing activities:		
Purchase of equipment		(442,899.44)
Net cash flows used by capital and related financing activites		(442,899.44)
Cash flows from investing activities:		
Interest income from loans		318,060.04
Administrative loan fees		2,240,791.47
Principal repayments on loans		6,475,400.18
Disbursement of loan proceeds		(48,375,742.41)
Interest from investments		244,113.81
Net cash flows used by investing activites		(39,097,376.91)
NET DECREASE IN CASH		(22,461,244.89)
Cash Balance at July 1, 2014		69,443,217.44
Cash Balance at June 30, 2015	$	46,981,972.55
Reconciliation of operating income to net cash used by operating activities:		
Operating loss	$	(5,907,632.20)
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation		194,285.54
Principal forgiveness for SRF		4,246,609.49
Interest income from loans		(331,395.94)
Administrative loan fees		(2,291,738.61)
Pension expense		507,392.61
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Due from State Treasury		(20,459.91)
Accrued salaries and other administrative costs		(74,199.53)
Net deferred outflows/inflows of resources related to pensions		(193,457.77)
Other post-employment benefits		144,871.03
Net cash used by operating activities	$	(3,725,725.29)

The accompanying notes are an integral part of this statement.

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.

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.

3. Loans Receivable

Transactions relating to loans were previously considered operating activities on the statement of cash flows. Effective SFY 2015, all outflows and inflows of loan activity (including interest) will be classified as investing activities.

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 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, 2015, accumulated sick leave was approximately $489,200.

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. 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.

12. 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.

13. 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.

14. Due from State Treasury

Due from State Treasury includes amounts due from other State departments and agencies, which were not received at the end of the fiscal year. This includes vacation transfers for employees from other government jurisdictions, or between positions within the same jurisdiction which are financed by different "Means of Finance."

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, 2015, the DWTRLF had outstanding loan receivables with the following government entities:

Nineteen 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.	$ 58,967,137.70
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.	12,591,408.62
Thirteen 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.	20,468,899.76
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.	23,997,649.39
Total	$116,025,095.47

Loans mature at various dates through 2035. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2016	$ 7,742,427.41
SFY2017	$ 7,770,903.82
SFY2018	$ 7,797,222.82
SFY2019	$ 7,824,135.41
SFY2020	$ 7,846,840.13
Thereafter	$ 77,043,565.88
	$116,025,095.47

As of June 30, 2015, accrued interest receivable, accrued administration loan fee receivable - program income (425), and accrued administration loan fee receivable - non-program income (430) on loans totaled $90,936.30, $230,063.83, and $459,844.81, respectively.

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, 2015, the DWTRLF has committed to make additional loans to the following government entities:

City & County of Honolulu, Board of Water Supply	$ -
County of Hawaii, Water Board	22,039,718.00
County of Kauai, Board of Water Supply	-
County of Maui, Board of Water Supply	26,519,076.00
Total	$48,558,794.00

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, 2015, EPA has awarded $152,551,200.00 to the state, of which $134,019,670.59 has been drawn down for loans and set asides. The state has also legislated and committed matching funds of $31,463,500.00.

The table below summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2015:

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	$ 8,283,000.00	$ 2,500.00 [3]	$ -
07/01/07 - 06/30/17	2006	$ 8,229,300.00	$ 8,156,653.00	$ -	$ 72,647.00
03/01/08 - 06/30/17	2007	$ 8,229,000.00	$ 8,118,618.15	$ -	$ 110,381.85
03/01/09 - 06/30/18	2008	$ 8,146,000.00	$ 7,487,779.92	$ -	$ 658,220.08
01/01/10 - 06/30/19	2009	$ 8,146,000.00	$ 6,273,613.98	$ -	$ 1,872,386.02
04/01/11 - 06/30/17	2010	$ 13,573,000.00	$ 8,857,486.31	$ -	$ 4,715,513.69
09/30/11 - 06/30/18	2011	$ 9,268,000.00	$ 6,052,562.05	$ -	$ 3,215,437.95
09/28/12 - 06/30/19	2012	$ 9,125,000.00	$ 6,972,081.17	$ -	$ 2,152,918.83
09/30/13 - 06/30/20	2013	$ 8,421,000.00	$ 3,847,739.27	$ 450,000.00 [4]	$ 4,123,260.73
12/01/14 - 06/30/21	2014	$ 8,845,000.00	$ 2,467,936,74	$ -	$ 6,377,063.26
		$157,317,500.00	$133,468,170.59	$ 551,500.00	$23,297,829.41

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.

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, 2015.

Federal Fiscal Year	Source of State Funds			20% State Match Amount
Totals from previous years:	**SFY's 1997 - 2007**			**$ 18,358,700.00**
2008	Act 158/08		$ 1,084,900.00	
	Act 213/07		$ 544,300.00	
		Total 08 Match		$ 1,629,200.00
2009	Act 162/09		$ 1,043,100.00	
	Act 158/08		$ 586,100.00	
		Total 09 Match		$ 1,629,200.00
2010	Act 180/10		$ 2,127,700.00	
	Act 162/09		$ 586,900.00	
		Total 10 Match		$ 2,714,600.00
2011	Act 164/11		$ 1,266,300.00	
	Act 180/10		$ 587,300.00	
		Total 11 Match		$ 1,853,600.00
2012	Act 106/12		$ 376,300.00	
	Act 164/11		$ 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
2014	Act 122/14		$ 1,769,000.00	
		Total 14 Match		$ 1,769,000.00
			Total 20% State Match	$ 31,463,500.00

NOTE F - EQUIPMENT

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

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

	Balance at July 1, 2014	Adjustments*	SFY 2015 Increases	SFY 2015 Decreases	Balance at June 30, 2015
Equipment	$1,356,241.71	$ 623,713.56	$ 442,899.44	$ 14,120.74	$2,408,733.97
Accumulated Depreciation	(1,119,727.18)	(200,479.37)	(194,285.54)	(14,120.74)	(1,500,371.35)
	$ 236,514.53	$ 423,234.19	$ 248,613.90	$ -	$ 908,362.62

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/.

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.

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.

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.

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 DWTRLF were $193,458 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 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.

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

At June 30, 2015, the DWTRLF reported a liability of $1,342,769 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 DWTRLF's proportion of the net pension liability was based on an allocations of the State's net pension liability based on the proportionate share of qualified payroll. At June 30, 2014, the DWTRLF's proportion of the State's proportion was 0.1200%, 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 DWTRLF recognized pension expense of $507,393. At June 30, 2015, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 70,833	$ (1,597)
Net difference between projected and actual earnings on pension plan investments	--	(655,698)
Changes in proportion and difference between DWTRLF contributions and proportionate share of contributions	10,197	--
DWTRLF contributions subsequent to the measurement date	193,458	--
	$ 274,488	$(657,295)

The $193,458 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.

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	$ (147,258)
2017	(147,258)
2018	(147,258)
2019	(147,258)
2020	12,767
Total	$ (576,265)

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 rate 3.5%
Investment rate of return 7.75% per year, compounded annually including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

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.

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

The following presents the DWTRLF's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the DWTRLF's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 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%)
DWTRLF's proportionate share of the net pension liability	$1,702,842	$1,342,769	$982,694

Pension Plan Fiduciary Net Position

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

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

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

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-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, 2015, 2014, and 2013 were approximately $92,300, $69,100, and $61,100, 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.

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:

	2015	2014
Annual OPEB cost	$237,168	$ 179,280
Contributions made	(92,297)	(69,104)
Increase in net OPEB obligation	144,871	110,176
Net OPEB obligation, beginning of year	599,990	489,814
Net OPEB obligation, end of year	$744,861	$599,990

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:

	2015	2014
Annual OPEB cost	$237,168	$179,280
Percentage of annual OPEB cost contributed	38.92%	38.55%
Net OPEB obligation, end of year	$744,861	$599,990

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/

NOTE H – PRIOR PERIOD ADJUSTMENTS

During the current year management discovered errors in previous year financial statements related to capital assets that were erroneously expensed. As a result of the correction, capital assets and net position were increased by $423,234.19 as of June 30, 2014.The Fund also 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	$ 147,646,717.25
Capital assets erroneously expensed	423,234.19
Cumulative effect of applying GASBS 68, as amended	
Net pension liability at June 30, 2013	(1,544,440.63)
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	132,800.55
	$ 146,658,311.36

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

Summary of the Drinking Water Treatment Revolving Loan Fund

Actual 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 Upgrades-Phase II [Interim 11/15/00]	1.37%	739,210.00
3	7/15/2001	410-0001 Damage Repairs to Kokolau Tunnel [Interim 11/15/00]	1.37%	1,663,201.02
4	10/15/2001	101-0001 Saddle Road Well "A" [Interim 11/15/00]	1.37%	1,610,048.59
5	4/15/2002	133-0001 Kukuihaele Well "A" (Replace Waiulili Spring) [Interim 7/15/01]	1.01%	334,240.00
6	4/15/2002	139-0001 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%	2,326,821.30
8	4/15/2002	107-0001 Kaieie Mauka (Replace Kaieie & Papaikou Springs) [Interim 7/15/01]	1.01%	2,245,936.00
9	4/15/2002	406-0001 Kekaha Well (Kapilimao Well) [Interim 7/15/01]	1.01%	862,882.74
10	3/15/2004	413-0002 Wailua Homesteads Well No. 3 [Interim 7/15/03]	0.54%	397,736.50
11	7/15/2003	404-0001 Rehabilitation of 27" Steel Pipe, Hanapepe-Eleele Water System [Interim 5/15/02]	0.99%	691,134.00
12	7/15/2003	404-0002 Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well #3 [Interim 5/15/02]	0.99%	1,243,976.74
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 Ornellas 0.2 MG Tank Refurbish [Interim 7/15/03]	0.58%	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 Pailani 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 Kunia Wells II-Nitrate Treatment Facility [Interim 3/15/04]	0.10%	395,054.20
21	1/15/2007	408-0002 Poipu Road 16 inch Main Replacement [Interim 1/15/05]	0.16%	5,158,885.83
22	2/15/2007	105-0001 Honomu Well "A" (Replace Akaka Falls Spring) [Interim 12/15/03]	0.41%	3,968,080.00
23	3/15/2007	213-0003 Kamole Weir Water Treatment Facility Clear Well Replacement [Interim 1/15/05]	0.15%	9,704,849.00
24	3/15/2008	331-0018 Pearl City Water System Improvements [Interim 5/15/07]	0.01%	1,255,435.00
25	3/15/2008	331-0024 Alewa Water System Improvements [Interim 5/15/07]	0.01%	2,666,036.00
26	3/15/2008	331-0025 Liliha Water System Improvements, Phase B [Interim 5/15/07]	0.01%	1,934,183.88
27	2/15/2009	214-0009 Napili Well "A" Site Improvements [2/15/09]	0.37%	1,629,992.00
28	3/15/2009	400-0001 Stable 1.0 MG Tank & Connecting Waterline [Interim 1/15/08]	0.26%	7,274,997.83
29	4/15/2009	154-0001 Hakalau Spring Improvement [4/15/09]	0.62%	606,167.00
30	5/15/2009	331-0031 Oahu Ave and Huelani Drive 8-inch Mains [Interim 5/15/08]	0.36%	1,324,452.00
31	8/15/2009	406-0005 Kaumuali'I Highway 12-inch Main Replacement Elepaio Road to Huakai Road, Job No. 05-04, KW-27, Kekaha-Waimea, Kaua'I, Hawaii [Interim 8/15/09]	0.32%	3,989,537.33
32	8/15/2009	434-0003 Waha, Wawae, and Niho Roads Main Replacement, Job No. 05-07, K-07, LO-13, at Kalaheo, Kaua'I, Hawaii [Interim 8/15/09]	0.32%	1,936,018.00
33	1/15/2010	406-0003 Kapilimao 0.5 MG Tank [Interim 8/15/08]	0.42%	3,793,779.17
34	8/15/2010	133-0002 Kapulena Well Development Phase 1 (Interim 11/15/09)	0.00%	1,000,154.00
35	8/15/2010	130-0004 Waimea Water Treatment Plant Sludge Drying Beds (Interim 8/15/10)	0.12%	3,458,753.00
36	4/15/2011	213-0006 Makawao Waterline Improvements- Ai Street, Kehau, Mole, & Malu Place (Interim 4/15/11)	0.00%	674,409.00
37	8/15/2011	213-0008 Kamole Water Treatment Plant High Lift Pumps (Interim 8/15/11)	0.35%	1,794,000.00
38	8/15/2011	247-0005 Upper Omaopio Road Tank Replacement (Interim 8/15/11)	0.00%	1,093,228.00
39	8/15/2011	247-0006 Middle and Lower Omaopio Road Tanks Replacements (Interim 8/15/11)	0.35%	576,043.00
40	11/15/2011	212-0007 Lower Paia Water Tank Replacement [Interim 11/15/11]	0.35%	1,012,994.00
41	4/15/2012	212-0010 Uluniu Road and Ewa Place Waterline Replacement (Interim 11/15/11)	1.00%	850,000.00
42	8/15/2012	106-0001 Kulaimano Production Well and Supporting Facilities (Interim 8/15/11)	1.00%	1,239,445.80
43	8/15/2012	217-0005 Wakiu Well Replacement (Interim 11/15/11)	0.50%	2,248,485.65
44	8/15/2012	400-0004 Job No. PLH-03, Kahili Horizontal Directional Drilled Well (Interim 2/15/12)	1.00%	678,402.00

Summary of the Drinking Water Treatment Revolving Loan Fund

Actual and Planned Binding Commitments (continued)

No.	Binding Commitment Date	Project Description (Project Name - Based on the Final Loan Agreement)	Rate	Loan Amount
45	12/15/2012	129-0002 Kynnersley #1- 0.3 MG Reservoir Replacement (Interim 11-15-11)	1.00%	2,394,278.00
46	4/15/2013	213-0009 Kaupakalua Road Waterline Improvements Phase 1 (Interim 2/15/12)	1.00%	846,047.00
47	4/15/2013	331-0038 Kealakaha Dr., Pooholua Dr., and Waipao Pl 8-in Mains (Commitment 10/10/12)	1.00%	1,064,405.29
48	4/15/2013	331-0049 Kona Street 8-inch Main (Commitment 10/10/12)	0.50%	4,399,728.00
49	4/15/2013	331-0057 Ward Avenue 12-inch and 8-inch Water Mains (Commitment 10/10/12)	1.00%	2,296,015.30
50	4/15/2013	413-0008 Job No. 02-15, WK28, Wailua Houselots Main Replacement, Phase I (Interim 2/15/12)	0.50%	4,463,084.00
51	5/15/2013	215-0003 Waikamoi Flume Repair/Replacement (Commitment 11/9/12)	0.00%	8,362,760.00
52	8/15/2013	215-0004 Olinda 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	247-0004 Piiholo Water Treatment Plant Improvements - Organic Carbon Reduction (Interim 2/15/12)	0.50%	4,960,519.00
54	1/15/2014	213-0014 Paia-Kuau Water System Improvements (Commitment 4/22/13)	1.00%	815,447.00
55	2/15/2014	212-0011 Maui Meadows Booster Pump Station #18 Improvements (Commiment 4/22/13)	1.00%	1,100,000.00
56	4/15/2014	212-0009 Wailuku Well Development (Interim 2/15/12)	1.00%	2,000,000.00
57	5/15/2014	331-0042 Foster Village Water System Improvements, Part III (Commitment 6/24/13)	1.00%	1,031,787.00
58	5/15/2014	331-0052 Mapunapuna Water System Improvements, Part I (Commitment 6/24/13)	0.50%	5,727,070.00
59	5/15/2014	331-0062 Kamehameha Highway 16-Inch and 8-Inch Mains (Heeia) (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%	3,720,373.00
62	10/15/2014	HBWS-0002 Honolulu BWS Loan Refinance 1 (No Commitment)	0.00%	26,400,910.01
63	10/15/2014	331-0047 Kalihi Water System Improvements, Part III (Commitment 4/29/14)	0.50%	5,068,079.00
64	11/15/2014	HBWS-0001 Honolulu BWS Water System Improvements 1 (Commitment 9/15/14)	0.00%	9,579,895.00
65	12/15/2014	400-0011 PLH-39, Lihue Baseyard Improvements for the Department of Water (No Commitment)	0.50%	4,000,000.00
66	1/15/2015	213-0015 Haliimaile Tank Replacement (Commit 8/27/13)	1.00%	700,000.00
67	4/15/2015	215-0010 Kula 200 #1 Tank Replacement (Commit 8/27/13)	1.00%	839,782.03
		TOTAL FINAL PROJECTS		**$ 210,688,976.44**

Planned (Future) Binding Commitments

No.	Date	Project Description (Project Name - Based on the Commitment Letter)	Rate	Loan Amount
1	8/27/2013	C 215-0009 Phase 6 Booster Pump Upgrades	0.50%	4,619,076.00
2	9/15/2014	C 102-0001 Laupahoehoe 0.5 MG Reservoir	0.50%	4,159,746.00
3	8/30/2013	C 161-0002 Ahualoa-Honokaa Transmission Waterline	1.00%	2,319,148.00
4	6/1/2015	C 130-0003 Waimea WTP Microfiltration	0.00%	12,896,000.00
5	4/15/2015	C MDWS-0001 Source Generator Installation - 4 Sites	1.00%	1,200,000.00
6	4/15/2015	C 233-0002 Kualapuu MCC Upgrades	1.00%	500,000.00
7	4/15/2015	C 212-0018 Wailuku Heights Tank 30 Booster Replacement	1.00%	1,200,000.00
8	5/28/2014	C 133-0004 Kapulena Well Development Phase 2 (Production Well and 0.3 MG Reservoir)	1.00%	2,664,824.00
9	4/15/2015	C 247-0008 Omaopio 2.1 MG Tank Replacement	0.50%	4,000,000.00
10	4/15/2015	C 212-0015 Iao Surface Water Treatment Plant Upgrades	0.00%	15,000,000.00
		TOTAL PLANNED (FUTURE) COMMITMENTS		**$ 48,558,794.00**
		TOTAL FINAL & PLANNED (FUTURE) PROJECTS		**$ 259,247,770.44**

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF NET POSITION

June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current Assets	
Cash and cash equivalents in State Treasury (note C)	$ 46,981,972.55
Accrued Interest (note D)	90,936.30
Accrued Interest from Investment	57,177.70
Accrued Loan Fees, program (note D)	230,063.83
Accrued Loan Fees, non-program (note D)	459,844.81
Due from state treasury (note B)	20,459.91
Due from Non SRF	23,837.02
Due from federal government	285,866.43
Current maturities of loans receivable (note D)	7,742,427.41
Total Current Assets	55,892,585.96
Loans Receivable, net of current maturities (note D)	108,282,668.06
Capital Assets	
Office Equipment (notes B and F)	2,348,737.47
Less: Accumulated Depreciation (notes B and F)	(1,469,731.48)
Total Office Equipment	879,005.99
Transportation Equipment (notes B and F)	59,996.50
Less: Accumulated Depreciation (notes B and F)	(30,639.87)
Total Transportation Equipment	29,356.63
Total Capital Assets	908,362.62
Total Assets	$ 165,083,616.64
Deferred outflows of resources (note B)	$ 274,488.38
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 165,358,105.02
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current Liabilities	
Payroll Payable	$ 120,144.85
Accounts Payable	171,235.47
Indirect Payable	67,052.70
Due to Non SRF	23,837.02
Accrued Vacation, current portion (note B)	42,553.97
Total Current Liabilities	424,824.01
Accrued Vacation, net of current portion (note B)	159,314.95
Net pension liability (note B and G)	1,342,768.66
Other Post-employment Benefits (note B and G)	744,860.97
Total Liabilities	2,671,768.59
Deferred inflows of resources (note B)	657,294.64
Net Position	
Net Investment in Capital Assets	908,362.62
Restricted	161,120,679.17
Unrestricted	-
Total Net Position	162,029,041.79
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 165,358,105.02

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

For the Year Ended June 30, 2015

OPERATING REVENUES	
Interest earnings from Loans (note B)	$ 331,395.94
Administration loan fee earnings, program (note B)	796,719.32
Administration loan fee earnings, non-program (note B)	1,495,019.29
Total Operating Revenues	2,623,134.55
OPERATING EXPENSES BY PROGRAM ACTIVITIES	
Administrative Cost - 4% set-aside	328,248.03
Admin. Technical Assistance - 4% set-aside	-
State Program Management - 10% set-aside	648,904.77
Source Water Protection - 10% set-aside	-
Capacity Development - 10% set-aside	-
Operator Certification - 10% set-aside	5,087.03
Small Systems Technical Assistance - 2% set-aside	28,941.00
Water Protection Program - 15% set-aside	-
Wellhead Protection Program - 15% set-aside	1,402,229.68
Technical or Financial Assistance - 15% set-aside	260,347.69
Admin Loan Fee - Program	138,329.88
Admin Loan Fee - Non Program	1,472,069.18
Principal forgiveness for SRF	4,246,609.49
Total Operating Expenses	8,530,766.75
OPERATING LOSS	(5,907,632.20)
NON-OPERATING REVENUES	
Federal contribution	19,210,661.70
State matching contribution	1,825,000.00
Interest earnings (loss) from Investment (note B)	242,700.93
Total Non-operating revenues and expenses	21,278,362.63
CHANGE IN NET POSITION	15,370,730.43
Net position - beginning of year as restated (Note H)	146,658,311.36
Net position - end of year	$ 162,029,041.79

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

Cash flows from operating activities:		
Personnel costs		(1,444,656.06)
Payments to vendors		(2,281,069.23)
Net cash flows used by operating activities		(3,725,725.29)
Cash flows from noncapital financing activities:		20,804,756.75
Net cash flows provided by noncapital financing activities		20,804,756.75
Cash flows from capital and related financing activities:		
Purchase of equipment		(442,899.44)
Net cash flows used by capital and related financing activites		(442,899.44)
Cash flows from investing activities:		
Interest income from loans		318,060.04
Administrative loan fees		2,240,791.47
Principal repayments on loans		6,475,400.18
Disbursement of loan proceeds		(48,375,742.41)
Interest from investments		244,113.81
Net cash flows used by investing activites		(39,097,376.91)
NET DECREASE IN CASH		(22,461,244.89)
Cash Balance at July 1, 2014		69,443,217.44
Cash Balance at June 30, 2015	$	46,981,972.55
Reconciliation of operating income to net cash used by operating activities:		
Operating loss	$	(5,907,632.20)
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation		194,285.54
Principal forgiveness for SRF		4,246,609.49
Interest income from loans		(331,395.94)
Administrative loan fees		(2,291,738.61)
Pension expense		507,392.61
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Due from State Treasury		(20,459.91)
Accrued salaries and other administrative costs		(74,199.53)
Net deferred outflows/inflows of resources related to pensions		(193,457.77)
Other post-employment benefits		144,871.03
Net cash used by operating activities	$	(3,725,725.29)

The accompanying notes are an integral part of this statement.

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.

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.

3. Loans Receivable

Transactions relating to loans were previously considered operating activities on the statement of cash flows. Effective SFY 2015, all outflows and inflows of loan activity (including interest) will be classified as investing activities.

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 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, 2015, accumulated sick leave was approximately $489,200.

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. 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.

12. 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.

13. 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.

14. Due from State Treasury

Due from State Treasury includes amounts due from other State departments and agencies, which were not received at the end of the fiscal year. This includes vacation transfers for employees from other government jurisdictions, or between positions within the same jurisdiction which are financed by different "Means of Finance."

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, 2015, the DWTRLF had outstanding loan receivables with the following government entities:

Nineteen 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.	$ 58,967,137.70
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.	12,591,408.62
Thirteen 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.	20,468,899.76
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.	23,997,649.39
Total	$116,025,095.47

Loans mature at various dates through 2035. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2016	$ 7,742,427.41
SFY2017	$ 7,770,903.82
SFY2018	$ 7,797,222.82
SFY2019	$ 7,824,135.41
SFY2020	$ 7,846,840.13
Thereafter	$ 77,043,565.88
	$116,025,095.47

As of June 30, 2015, accrued interest receivable, accrued administration loan fee receivable - program income (425), and accrued administration loan fee receivable - non-program income (430) on loans totaled $90,936.30, $230,063.83, and $459,844.81, respectively.

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, 2015, the DWTRLF has committed to make additional loans to the following government entities:

City & County of Honolulu, Board of Water Supply	$ -
County of Hawaii, Water Board	22,039,718.00
County of Kauai, Board of Water Supply	-
County of Maui, Board of Water Supply	26,519,076.00
Total	$48,558,794.00

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, 2015, EPA has awarded $152,551,200.00 to the state, of which $134,019,670.59 has been drawn down for loans and set asides. The state has also legislated and committed matching funds of $31,463,500.00.

The table below summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2015:

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	$ 8,283,000.00	$ 2,500.00 [3]	$ -
07/01/07 - 06/30/17	2006	$ 8,229,300.00	$ 8,156,653.00	$ -	$ 72,647.00
03/01/08 - 06/30/17	2007	$ 8,229,000.00	$ 8,118,618.15	$ -	$ 110,381.85
03/01/09 - 06/30/18	2008	$ 8,146,000.00	$ 7,487,779.92	$ -	$ 658,220.08
01/01/10 - 06/30/19	2009	$ 8,146,000.00	$ 6,273,613.98	$ -	$ 1,872,386.02
04/01/11 - 06/30/17	2010	$ 13,573,000.00	$ 8,857,486.31	$ -	$ 4,715,513.69
09/30/11 - 06/30/18	2011	$ 9,268,000.00	$ 6,052,562.05	$ -	$ 3,215,437.95
09/28/12 - 06/30/19	2012	$ 9,125,000.00	$ 6,972,081.17	$ -	$ 2,152,918.83
09/30/13 - 06/30/20	2013	$ 8,421,000.00	$ 3,847,739.27	$ 450,000.00 [4]	$ 4,123,260.73
12/01/14 - 06/30/21	2014	$ 8,845,000.00	$ 2,467,936,74	$ -	$ 6,377,063.26
		$157,317,500.00	$133,468,170.59	$ 551,500.00	$23,297,829.41

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.

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, 2015.

Federal Fiscal Year	Source of State Funds			20% State Match Amount
Totals from previous years:	**SFY's 1997 - 2007**			**$ 18,358,700.00**
2008	Act 158/08		$ 1,084,900.00	
	Act 213/07		$ 544,300.00	
		Total 08 Match		$ 1,629,200.00
2009	Act 162/09		$ 1,043,100.00	
	Act 158/08		$ 586,100.00	
		Total 09 Match		$ 1,629,200.00
2010	Act 180/10		$ 2,127,700.00	
	Act 162/09		$ 586,900.00	
		Total 10 Match		$ 2,714,600.00
2011	Act 164/11		$ 1,266,300.00	
	Act 180/10		$ 587,300.00	
		Total 11 Match		$ 1,853,600.00
2012	Act 106/12		$ 376,300.00	
	Act 164/11		$ 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
2014	Act 122/14		$ 1,769,000.00	
		Total 14 Match		$ 1,769,000.00
			Total 20% State Match	$ 31,463,500.00

NOTE F - EQUIPMENT

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

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

	Balance at July 1, 2014	Adjustments*	SFY 2015 Increases	SFY 2015 Decreases	Balance at June 30, 2015
Equipment	$1,356,241.71	$ 623,713.56	$ 442,899.44	$ 14,120.74	$2,408,733.97
Accumulated Depreciation	(1,119,727.18)	(200,479.37)	(194,285.54)	(14,120.74)	(1,500,371.35)
	$ 236,514.53	$ 423,234.19	$ 248,613.90	$ -	$ 908,362.62

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/.

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.

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.

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.

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 DWTRLF were $193,458 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 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.

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

At June 30, 2015, the DWTRLF reported a liability of $1,342,769 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 DWTRLF's proportion of the net pension liability was based on an allocations of the State's net pension liability based on the proportionate share of qualified payroll. At June 30, 2014, the DWTRLF's proportion of the State's proportion was 0.1200%, 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 DWTRLF recognized pension expense of $507,393. At June 30, 2015, the DWTRLF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 70,833	$ (1,597)
Net difference between projected and actual earnings on pension plan investments	--	(655,698)
Changes in proportion and difference between DWTRLF contributions and proportionate share of contributions	10,197	--
DWTRLF contributions subsequent to the measurement date	193,458	--
	$ 274,488	$(657,295)

The $193,458 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.

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	$ (147,258)
2017	(147,258)
2018	(147,258)
2019	(147,258)
2020	12,767
Total	$ (576,265)

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 rate 3.5%
Investment rate of return 7.75% per year, compounded annually including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

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.

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

The following presents the DWTRLF's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the DWTRLF's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 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%)
DWTRLF's proportionate share of the net pension liability	$1,702,842	$1,342,769	$982,694

Pension Plan Fiduciary Net Position

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

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

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

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-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, 2015, 2014, and 2013 were approximately $92,300, $69,100, and $61,100, 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.

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:

	2015	2014
Annual OPEB cost	$237,168	$ 179,280
Contributions made	(92,297)	(69,104)
Increase in net OPEB obligation	144,871	110,176
Net OPEB obligation, beginning of year	599,990	489,814
Net OPEB obligation, end of year	$744,861	$599,990

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:

	2015	2014
Annual OPEB cost	$237,168	$179,280
Percentage of annual OPEB cost contributed	38.92%	38.55%
Net OPEB obligation, end of year	$744,861	$599,990

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/

NOTE H – PRIOR PERIOD ADJUSTMENTS

During the current year management discovered errors in previous year financial statements related to capital assets that were erroneously expensed. As a result of the correction, capital assets and net position were increased by $423,234.19 as of June 30, 2014.The Fund also 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	$ 147,646,717.25
Capital assets erroneously expensed	423,234.19
Cumulative effect of applying GASBS 68, as amended	
Net pension liability at June 30, 2013	(1,544,440.63)
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	132,800.55
	$ 146,658,311.36

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