

**REPORT TO THE TWENTY-FOURTH LEGISLATURE
STATE OF HAWAII
2008**

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 HEALTH ADMINISTRATION
ENVIRONMENTAL MANAGEMENT DIVISION
SAFE DRINKING WATER BRANCH
WASTEWATER BRANCH
DECEMBER 2007**

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OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

This annual report is submitted to the State of Hawaii Legislature pursuant to Section 340E-33 of the Hawaii Revised Statutes. It covers the reporting period State Fiscal Year (SFY) July 1, 2006 to June 30, 2007 and describes how the Hawaii Drinking Water Treatment Revolving Loan Fund (DWTRLF) has 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 2007.

The mission of the DWTRLF is to help local water purveyors improve and expand their drinking water infrastructure and to help protect the public's health and environment of Hawaii.

B. EXECUTIVE SUMMARY

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

Major Activities in SFY 2007

The following major activities took place during the past fiscal year:

- Executed three (3) final loan agreements with a total value of \$16.8 million;
- Executed three (3) interim loan agreements with a total value of \$6.3 million;
- Executed one (1) supplemental loan agreement with a total value of \$0.4 million;
- Continued to work with various counties on a number of other potential projects which we anticipate will become future loan projects;
- Applied for approximately \$8.2 million of capitalization grant funds from the EPA;
- Requested and received the State's 20% match of approximately \$1.6 million from the Legislature;
- Worked with the Honolulu Board of Water Supply on numerous projects in anticipation of future loan activity; and
- Continued to improve the DWTRLF program's fund utilization rate to 74%, just short of the target of 79% set by EPA, Region IX.

Major Changes in SFY 2007

The following major changes took place during the past fiscal year:

- The DWTRLF program filled a vacant Business Loan Officer position in April 2007, however the program staff still struggles with a lack of manpower.
- The Honolulu Board of Water Supply, owner and operator of the largest public water system in the State, made a commitment to continue to obtain DWTRLF program loans.

The program has met its objectives of:

- a) Providing low interest loans to Hawaii's four water departments for the construction of drinking water infrastructure;
- b) Operating the program in perpetuity and in such a manner that it is self sufficient; and
- c) Complying with all EPA State Revolving Fund program requirements including federal cross cutters, Minority Business Enterprise/Women Business Enterprise requirements and standard accounting practices. This conclusion is supported by EPA's annual performance evaluation as well as the latest (SFY 2006) annual independent audit of the program by the accounting firm of Accuity LLP.

Future Outlook and Activities to be Addressed in SFY 2008

The nation and State's economy continues to recover at a moderate pace and the program does not see any indication of an adverse impact to our loan making capabilities to the four County water departments. However, the rapidly escalating cost of construction has made it particularly difficult for the smaller, neighbor island water departments to plan and budget for their capital improvement projects. Manpower resources will continue to be an immediate challenge for the DWTRLF program with two (2) vacant engineer positions.

The following major activities will be conducted in SFY 2008:

- Continuing to service existing loans;
- Receiving the FFY 2007 Federal Capitalization (CAP) Grants from EPA;
- Submitting a request to the 2008 Legislature for the State's 20% match to EPA's CAP Grant;
- Continuing to work with all four County water departments to insure that the model loan agreement languages are acceptable;
- Executing interim and final loan agreements which were delayed in SFY 2007;
- Overseeing construction activities for ongoing loans as well as new projects to be initiated in SFY 2008; and

- Filling the two (2) vacant engineer positions in the DWTRLF program to fully service and help retain the interest in our loans by the four County water departments.

C. MAJOR INITIATIVES

- I. Pursuant to the Act 160, the 2006 Hawaii State Legislature provided local match funds to the federal capitalization grant in the amount of \$1,661,000.00.

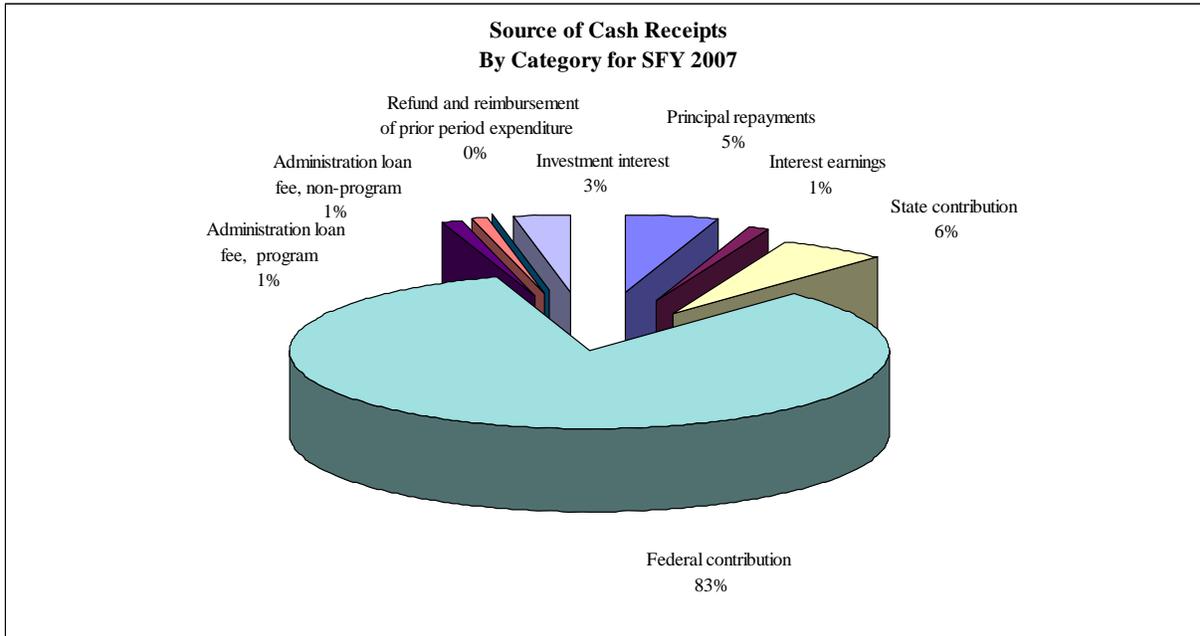
An overview of the DWTRLF for SFY 2007 includes the following:

a. Funds withdrawn from the federal Automated Standard Application for Payments (ASAP) system:	\$21,401,546.34 ¹
b. State match funds for FFY 2006 Federal Capitalization Grant provided:	\$ 1,661,000.00
c. State match funds distributed:	\$ 4,429,686.40
d. Loans executed:	
Three Final Loan Agreements:	\$16,795,869.00
Three Interim Loan Agreement:	6,256,399.00
One Supplemental Loan Agreement:	<u>397,736.50</u>
Total Loans Executed:	\$23,450,004.50
e. Principal repayment received:	\$ 1,157,967.86
f. Interest repayments received:	\$ 187,637.04

¹ Total funds withdrawn from the federal ASAP system should be \$21,404,046.34. The difference of \$2,500 was deducted from the Admin fund by EPA prior to the issuance of the FFY2005 cap grant for an EPA County workshop. Therefore, the \$2,500 shows up in EPA's records and not in FAMIS.

Graph I below shows the percentage breakdown of sources of cash by category received for the SFY 2007.

Graph I.



2. The award of low-interest DWTRLF loans involves a two-step process. First, an Interim Loan Agreement is prepared and signed based on initial cost estimates, which commits the funds to the water boards. Second, after project contracts are awarded, a Final Loan Agreement is prepared and executed, after which funds can be disbursed.

If there are any changes to the Final Loan Agreement (e.g., an increase or decrease in loan amount, a change in interest rate, etc.), a Supplemental Loan Agreement is prepared and signed. The effective date of the agreement is determined by when the agreement is ready to be routed and signed by all parties.

- a. The following Interim Loan Agreements were processed and executed in SFY 2007:

<u>County Board</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Honolulu	Pearl City Water System Improvements (Executed 5/15/07)	Senate District 16 House District 34	\$ 1,433,476.00

Honolulu	Alewa Water System Improvements (Executed 5/15/07)	Senate District 13 House District 27	\$ 2,674,532.00
Honolulu	Liliha Water System Improvements, Phase B (Executed 5/15/07)	Senate District 13 House District 27	\$ 2,148,391.00
TOTAL INTERIM LOAN AGREEMENTS			\$ 6,256,399.00

b. The following Final Loan Agreements were processed and executed in SFY 2007:

<u>County Board</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Kauai	Poipu Road 16 inch Main Replacement (Executed 1/15/07)	Senate District 7 House District 16	\$ 5,595,979.00
Hawaii	Honomu Well "A" (Replace Akaka Falls Spring) (Executed 2/15/07)	Senate District 1 House District 1	\$ 292,767.00
Mauai	Kamole Weir Water Treatment Facility Clear Well Replacement (Executed 3/15/07)	Senate District 6 House District 12	\$10,907,123.00
TOTAL FINAL LOAN AGREEMENTS			\$16,795,869.00

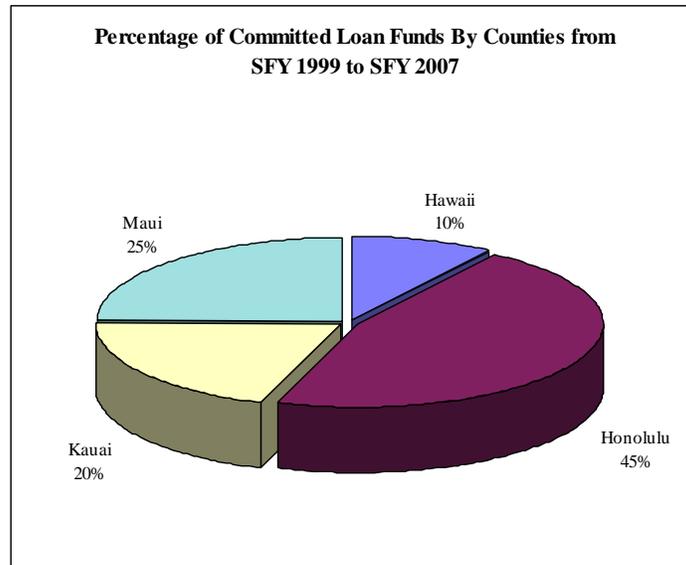
c. The following Supplemental Loan Agreement was processed and executed in SFY 2007:

<u>County Board</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Kauai	Wailua Homesteads Well No.3 (Executed 2/15/07)	Senate District 7 House District 13	\$ 397,736.50
TOTAL SUPPLEMENTAL LOAN AGREEMENTS			\$ 397,736.50

- d. There were no DWTRLF projects that were awarded Interim Loan Agreements in previous fiscal years and continues to be processed for Final Loan Agreements at the end of SFY 2007.

The percentage of committed loan funds by Counties is illustrated in Graph 2 below.

Graph 2.



D. 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 DWTRLF and describing how those uses support the goals of the DWTRLF 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 2007 on September 4, 2006.

The following is a summary of the goals and accomplishments for the SFY 2007 and a summary of the program achievements throughout the year.

Long-Term Goals:

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

The DWTRLF program continues to work with all four major 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 DWTRLF Program in perpetuity.

The DWTRLF program continues a conservative approach to expenditures in SFY 2007 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.

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

In previous years, the DWTRLF program successfully revised the Hawaii Revised Statutes (HRS) to authorize a linked deposit program. After the fact, it was found that HRS, Chapter 38.3, however, imposes additional requirements on participating financial institutions to maintain a 100% reserve, equal to the amount loaned. The reserve fund requirement and other possible regulatory requirements will ultimately limit participation by financial institutions and the program needs to conduct further research to ensure that the program developed, have benefits for all parties involved. Thus, further research needs to be completed to entertain innovative alternate means to provide funding to privately owned public water systems. Additionally in SFY 2007, the DWTRLF program has been concentrating its efforts in working with all of the County water departments to move projects forward to construction and execution of the final loan agreements.

Short-Term Goals:

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

The DWTRLF staff continues to work with Northbridge Environmental Management Consultant in developing an Access Database program capable of tracking information and providing reports for the DWTRLF program (referred to as the Northbridge

database). A main obstacle in the database development is the broad scope of information which is being combined into one tracking program; project and financial information, set-aside expenses and related reports. Some of the project and financial information include engineering review and construction inspection information, financial loan information, payments and repayment information. Additionally, the program spends set-aside funds outside of the project loans, and those monies need to be accounted for with expenses being reported back to EPA. There are different staff members in different branches who will be responsible for inputting data into the system, and therefore, system development has become complex.

Development and testing continue, with new testing needed each time an updated version is sent to the state staff. The program expects to continue to work on the program until a viable product is achieved, and the final product will be used to develop annual report statements and the annual Drinking Water National Information Management System (DWNIMS) information.

2. Continue modification of the Functional Procedures to reflect and meet the DWTRLF requirements and needs.

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

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

The DWTRLF program continues to monitor, discuss and review the technical, managerial and financial status and condition of the four Hawaii Counties, the current customer base. Additionally, the Safe Drinking Water Branch, 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.

E. COMPLIANCE MATTERS

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

1. Environmental Review - Each DWTRLF 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, DWTRLF Exempt Project Certification forms were submitted to the DWTRLF program with the qualifying exemption identified.

2. Intended Use Plan - The Drinking Water Treatment Revolving Loan Fund Intended Use Plan for the State of Hawaii SFY 2007 / FFY 2006 Appropriation was finalized on September 4, 2006. A notice for public participation and input was published on July 28, 2006 with an open comment period until August 28, 2006. There were no comments submitted within the public comment period.

In addition, a notice for public participation and input for the Drinking Water Treatment Revolving Loan Fund Intended Use Plan for the State of Hawaii SFY 2008 / FFY 2007 Appropriation was published on May 16, 2007 with an open comment period until June 15, 2007. This Intended Use Plan could not be finalized during SFY 2007 as there were a number of individuals who requested a public hearing on Maui. The hearing was subsequently scheduled for August 16, 2007 in Pukalani, Maui.

3. Other Federal ("Cross-cutter") Requirements - The County Water Departments certify for each of their DWTRLF 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.

PACE CONCERNS:

The Hawaii DWTRLF program has been working closely with EPA and the four Counties to improve on the pace of the program and to execute final loan agreements in a timely manner. In SFY 2007, EPA set a target fund utilization rate of 79%. Even with the unexpected delay in getting some of the loan agreements signed, the state program still managed to achieve a fund utilization rate of 74%.

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

- I. U.S. Environmental Protection Agency DWSRF Strategic Plan Goals and Objectives.

Strategic Plan Goal 2: Clean and Safe Water

Strategic Plan Objective 2.1: Protect Human Health - Protect human health by reducing exposure to contaminants in drinking water (including protecting source waters), in fish and shellfish, and in recreational waters.

Strategic Plan Sub-objective 2.1.1: Water Safe to Drink - By 2008, 95% of the population served by community water systems will receive drinking water that meets all applicable

health-based drinking water standards through 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 (Clean and Safe Water), Objective 2.1 (Protect Human Health), and Sub-objective 2.1.1 (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 negotiates Hawaii's Strategic Plan commitments for the SFY starting July 1. This year, Hawaii submitted its Strategic Plan commitments for the Federal Fiscal Year starting on October 1st and has projected a Fund Utilization Rate of 80%.

All DWSRF loans have assisted public water systems 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.

2. Closed Loans: As of June 30, 2007 and since the inception of the program, Hawaii's DWSRF program has executed 23 loans for \$69,471,848.60. In SFY 2007, Hawaii's DWSRF program executed three final loan agreements for a total of \$16,795,869.00.

FINANCIAL SECTION

The following is a summary of the financial activities of the program for the fiscal year ended June 30, 2007. The Department of Health (DOH) considers the DWTRLF to be a special revolving fund. The fund was established 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

I. Sources of Funds:

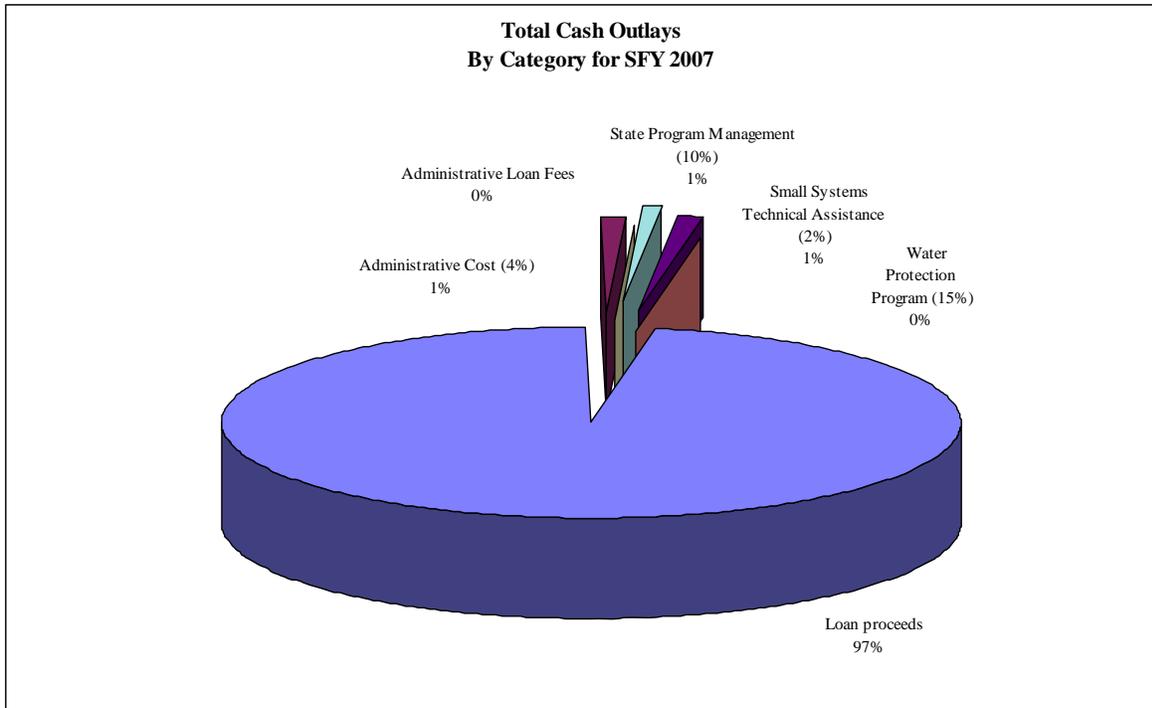
Since the program's inception, the DOH has received a total of \$83,564,500² in federal capitalization grants. Of this amount, \$15,483,586.73 was set aside to support other drinking water program initiatives and administration of the loan program with the remaining \$68,080,913.27 earmarked for DWTRLF loan funds.

To date, the DOH has committed \$57,452,241.75 of federal capitalization grant funds and \$14,350,732.85 of state match funds to the water boards of the four major counties of Hawaii. These funds have benefitted communities of all sizes in the State of Hawaii.

² As of June 30, 2007, EPA has not awarded the DWTRLF program its FFY 2007 capitalization grant of \$8,268,800.

Graph 3 below shows the significance of loan proceeds in relation to all costs associated with the DWTRLF's operations.

Graph 3.



2. State Match:

Pursuant to Appropriations Act 160, the 2006 Hawaii State Legislature appropriated \$1,661,000 in general obligation bond funds for the required state match for the FFY 2006 EPA SRF Capitalization Grant. The state match was transferred to the DWTRLF's account in April 2007.

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 the 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, 2007, the DOH committed \$57,452,241.75 of federal capitalization grant funds and \$14,350,732.85 of state match funds to DWTRLF projects.

The State of Hawaii defines an interim loan agreement as the legal obligation document binding the term of DWTRLF assistance. An increase or decrease in funding to any specific project does not count as an additional binding commitment, but is included in binding dollars.

The SRF program binned \$75,728,247.60 or 80.8% of all federal funds available since the inception of the program. The program also has another \$13,305,582 in pending commitments which, when executed, will bring the total binding commitment percentage to 95.0% of all funds available.

4. Assistance as a Percentage of Funds Available

The DWTRLF's percentages for Assistance as a Percentage of Funds Available, based on NIMS, for 2003, 2004, 2005, 2006, and 2007 were: 31%, 28%, 34%, 73%, and 74%, respectively. The Program's goal for 2007 was set at 79%; and for 2008, the goal is 80%.

5. Disbursements as a Percentage of Assistance

The DWTRLF's percentages for Disbursements as a Percentage of Assistance, based on NIMS, for 2003, 2004, 2005, 2006, and 2007 were: 85%, 92%, 77%, 39%, and 65%, respectively.

6. Automated Standard Application for Payments (ASAP):

The program drew \$21,401,546.34³ of its capitalization grant funds from the ASAP system during SFY 2007. Of this amount, \$20,677,202.08 was used for DWTRLF loans and \$724,344.26 was used to fund the DWTRLF set-aside operations.

7. Loan Repayments and Investment Interest:

Under the DWTRLF, 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 DWTRLF Program.

Loan repayments and investment interest are deposited into the following DWTRLF accounts:

³ Total funds withdrawn from the federal ASAP system should be \$21,404,046.34. The difference of \$2,500 was deducted from the Admin fund by EPA prior to the issuance of the FFY2005 cap grant for an EPA County workshop. Therefore, the \$2,500 shows up in EPA's records and not in FAMIS.

Account code 422 - Principal from repayments;
 Account code 423 - Interest from repayments;
 Account code 424 - investment interest.

In SFY 2007, DOH received \$1,157,967.86 from principal repayments, \$187,637.04 from interest from repayments, and \$745,358.79 from investment interest.

For SFY 2008, the program is projected to receive principal and interest repayments and investment interest of \$2,078,020.59, \$222,621.60, and \$418,571.90, respectively.

8. MBE / WBE:

The recipients of the federal funds are required to procure Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE) for all State Revolving Fund (SRF) projects. The DOH has agreed to the following fair share goals of MBE and WBE:

	<u>MBE</u>	<u>WBE</u>
Construction	50.6%	4.5%
Services	48.6%	22.7%
Supplies	52.7%	22.5%
Equipment	10.1%	16.6%

For SFY 2007, DWTRLF loan recipients awarded Drinking Water contracts to MBE's and WBE's and the program procured MBE/WBE services as follows:

	<u>Total Amount</u>	<u>Amount Awarded to MBE</u>	<u>Percentage of MBE Utilization</u>	<u>Amount Awarded to WBE</u>	<u>Percentage of WBE Utilization</u>
All Services	\$ 267,224.64	\$ 30,496.65	11.4%	\$ 996.89	.4%
Construction	\$19,733,809.00	\$16,684,268.20	84.5%	\$1,232,355.00	6.2%

As part of the program's compliance with federal SRF requirements, form 5700-52A (U.S. Environmental Protection Agency MBE/WBE Utilization Under Federal Grants, Cooperative Agreements, and Interagency Agreements) is submitted directly to EPA on a quarterly basis. All forms are signed by the program's authorized representative and are on file with EPA.

C. PROGRAM ACTIVITIES

Highlights of the program's activities are as follows:

1. The program completed a priority list, developed the SFY 2007 Intended Use Plan, and prepared the capitalization grant application.
2. The program serviced 26 interim and final DWTRLF loans which totaled \$75,728,247.60.
3. The program reviewed planning documents (including the preliminary engineering reports, plans and specifications, environmental assessment documents, and federal requirement documents) for various projects.
4. The program executed three interims, three finals, and one supplemental loan agreement for \$6,256,399.00, \$16,795,869.00, and \$397,736.50, respectively.
5. The program conducted construction inspections of ongoing DWTRLF projects under construction.
6. To administer the DWTRLF program and its related drinking water programs, the program paid \$25,812,653.35. This consisted of \$25,068,774.99 in loan disbursements and \$59,410.46 in administrative loan fee costs (425). The expenditures for the other drinking water programs were: \$153,388.40⁴ for Administrative Cost (4%)(426); \$299,830.89 for State Program Management (10%)(427); \$162,500.00 for Small Systems Technical Assistance (2%)(428); \$5,075.47 for Operator Certification (10%)(435); and \$63,673.14 for Wellhead Protection Program (15%)(436).

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 DOH implemented a loan fee program on May 17, 2000. For SFY 2007, the DWTRLF program collected \$257,211.90 in administration loan fee - program income and \$375,656.73 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.

⁴ Includes an in-kind assistance of \$2,500 for EPA's County Workshop which was deducted prior to the issuance of the FFY2005 capitalization grant.

Small Systems Technical Assistance (2%)

The SDWB issued a contract to provide training to small water systems using the 2% monies starting in October 2004 and continuing through October 2009. 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, privately owned public water systems and providing hands on training in technical, financial, and managerial areas.

The circuit rider program also implemented 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 has been welcomed approach to providing technical assistance, without the risk of enforcement.

In October 2006, the SDWB expanded the circuit rider program to meet growing demand. The program now provides assistance to all small public water systems serving 10,000 or less people in the State, which includes private, State, County, and Federal (national parks and military) water systems. Rural Community Assistance Corporation also added a second circuit rider staff member to the program. The contract will use approximately \$1,040,000 from this fund.

State Program Management (10%)

The Safe Drinking Water Act Amendments of 1996 provided that up to ten percent of the DWTRLF 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 the Safe Drinking Water Branch (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 of protection strategies and plans. This year, the SDWB continued to meet with water systems and government agencies on the results of the assessments and plans for source water protection.

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 21 sanitary surveys of public water systems throughout the state during SFY 2007. These surveys contribute significantly to strengthening the protection of drinking water quality. Due to staffing shortages, the SDWB contracted an engineering firm, Oceanit Laboratories, Inc., to

perform the sanitary surveys of the upcountry Maui public water systems (Lower Kula, Upper Kula, Makawao and Wailuku) in SFY 2007. The Lower Kula sanitary survey will be completed in SFY 2008. In SFY 2008, SDWB will contract with Oceanit to perform the sanitary surveys of the North and South Kona public water systems.

The program continued to expend resources to deal with issues from the upcountry Maui area. The complaints originally claimed that the phosphate corrosion control additives used to prevent lead from leaching into drinking water from pipes and piping material was causing skin irritation. However, with the change to pH/alkalinity adjustment using food grade lime or soda ash, the number of complaints appeared to significantly decrease.

Despite the improvements in operations and water quality, many residents continue to be highly critical of the County of Maui, Department of Water Supply. This includes some of the members of the Upcountry Maui Water Oversight Advisory Committee, which oversees the \$497,000 EPA grant to the Department of Water Supply aimed at helping with the original lead and copper based problems. More recently, the Upcountry Maui Water Oversight Advisory Committee, submitted an enormous request for public record to the SDWB involving all compliance data and correspondence associated with the three Upcountry Maui public water systems (PWS #215, 247, and 213, DWS Upper Kula, DWS Lower Kula, and DWS Makawao, respectively). In accordance with guidelines established by the Office of Information Practices, SDWB staff estimated that it would cost approximately \$3,600.00 to process this request. To date, the requestor has failed to respond or make the required initial payment in order to begin processing the information request.

The Upcountry Maui Water Oversight and Advisory Committee also collected first draw heterotrophic bacteria samples from residences throughout Upcountry Maui as well as the Kula Elementary School. They attempted to use their results to call for stricter heterotrophic plate count regulation, thorough drinking water testing of all schools, and ultimately, research on unregulated microbes throughout the distribution system. Substantial effort was made by SDWB staff to demonstrate the problematic nature of trying to use heterotrophic plate counts, employing first draw sampling on inappropriate sampling locations, and validating the effectiveness of the flushing program utilized by the Department of Education.

A few surface water systems continued to experience difficulties in meeting the standards for disinfection by-products. In the case of some of the Upcountry Maui water systems, they have had to maintain a distribution flushing program to help maintain water quality, even during drought conditions.

Another highly publicized Upcountry Maui water quality issue was the proposed measure by the Maui County Council to ban the use of the Hamakuapoko Wells Nos. 1 and 2 for drinking water use. The SDWB branch chief's participation was requested at

the County Council's hearing on the proposed measure and the Mayor's "panel of experts." Despite the use of EPA recognized, best available treatment technology (granular activated carbon) to remove DBCP and EDB, the source approval by the SDWB, and testimony by experts, the County Council passed the measure and Mayor Arakawa allowed it to become law without his signature.

The program continued to provide certification reviews for laboratories performing safe drinking water analyses. Approximately 11 microbiological laboratories and 29 chemistry laboratories hold certifications for one or more drinking water chemical parameters.

Finally, the SDWB continues to successfully implement the terms of the many drinking water rules for which it either has primary enforcement authority (primacy) or intends to apply for primacy. These include: the Total Coliform Rule, the Surface Water Treatment Rule, the LT1 and LT2 Enhanced Surface Water Treatment Rules, the LT1 Enhanced Surface Water Treatment Rule, the Phase I Volatile Organic Chemical Rule, Phase II SOC/IOC Rule, the Phase V SOC/IOC Rule, Lead and Copper Rule, including Minor 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 Rule, and more.

3. Capacity Development Program

The program's capacity development program efforts for SFY 2007 were concentrated in the Technical Assistance Contract described in the Circuit Rider contract described in the Small System discussion. Another program effort includes the implementation of a contract with the University of Hawaii's Outreach College to establish an ongoing training program for water system operators. This contract used funding from the Operator Expense Reimbursement Grant to begin the program and calls for the college to continue offering classes for re-certification of operators. During SFY 2007, the University of Hawaii provided at least one continuing education credit (CEU) on Kauai, Oahu, Maui, Molokai, and Hawaii.

4. Operator Certification Program

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

From July 1, 2006 to June 30, 2007, the Board of Certification of Operating Personnel in Public Water Systems met four times. During this period:

- 78 Applications were received for certification review.
- 8 Reciprocal certifications were issued.
- 17 Persons were tested for the WTPO certification (Examinations were held on July 25, 2006 and January 23, 2007).

- 10 Persons passed the WTPO certification examination.
- 111 Persons were tested for the DSO certification (Examinations were held on October 24, 2006 and April 24, 2007).
- 54 Persons passed the DSO certification examination.
- 192 WTPO certifications were active as of June 30, 2007.
- 482 DSO certifications were active as of June 30, 2007.
- 27 Public water systems required to have level 1 certified water treatment plant operators by the level of the plant.
- 8 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.
- 123 Public water systems with at least one distribution system operator certified at the level of the distribution system of the water system.

Water Protection Program (15%)

The SDWB has revised Hawaii's Wellhead Protection Program Plan to include a Financial Assistance Program that will allow the SDWB to provide funding/grants to public water systems for water protection planning and implementation protection projects and activities. Project proposals have been received from the County of Maui, Department of Water Supply to implement a wellhead protection program and from the Hawaii Nature Center-Maui to prepare a source protection plan and education program. The SDWB has also prepared a workplan to utilize the 15% DWSRF funding to create Local and Wellhead Protection Workgroups, provide educational opportunities on protection for water systems, and began the framework for creating State, Local, and Private Water System workgroups to develop and implement source water/wellhead protection activities.

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 program lacks the necessary resources to conduct a comprehensive drinking water service and operational analysis. In general, the more highly rated water and sewer enterprises share an important fundamental characteristic with other highly rated debt: a strong underlying economic basis and service area. Nearly all highly rated enterprises are located in areas characterized by solid, steady growth in a strong and diverse service area. Although there is no correlation between a general obligation bond rating and a water and sewer enterprise rating, the common themes of the economic fundamentals should result in similar ratings. Indicators such as customer growth, balance of customers between residential, commercial and industrial, new connections, income trends, and the outlook for

economic performance and the ability to withstand economic stresses are important considerations for an enterprise.

Table I contains specific information regarding the credit worthiness of our four DWTRLF recipients. The table shows the credit rating categories for these recipients. The General Obligation (G.O.) Bond credit agencies, Moody’s and Fitch, gave every Hawaii county’s board of water or board of water supply an “A” or “A-” rating. In summary, the DOH feels that the credit pool of DWTRLF’s loan portfolio has a high degree of solvency.

Table I

<u>Recipients</u>	<u>Committed Amount</u>	<u>Moody’s/ Fitch Bond Rating</u>	<u>Percentage of DWTRLF Loan Portfolio</u>
City and County of Honolulu, Board of Water Supply	\$34,554,207.75	Aa3/AA	45.6%
County of Hawaii, Water Board	7,203,562.59	A1/A+	9.5%
County of Maui, Board of Water Supply	18,747,210.00	Aa3/AA-	24.8%
County of Kauai, Board of Water Supply	<u>15,223,267.26</u>	A1/A+	<u>20.1%</u>
Totals	\$75,728,247.60		100.0%

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, Accuity LLP, was selected by the DOH to perform the financial audit of the DWTRLF Program for SFY 2007. Although the activities and financial statements for fiscal year 2007 are unaudited as of the date of this report, Accuity LLP did perform an annual financial audit of the DWTRLF Program for SFY 2006.

The auditor’s report for the SFY 2006 DWTRLF financial statement was published on November 7, 2006. Page 21 of the audit report reads, *“In our opinion, the Fund complied, in all material respects, with the requirements governing types of activities and types of service and types of costs allowed or unallowed; matching; level of effort or earmarking requirements; special reporting requirements; special tests or provisions, and claims for advances and reimbursements that are applicable to its major Federal financial assistance program for the year ended June 30, 2006.”*

The auditor’s report for SFY 2007 will be published sometime in November 2007.

Program information: For any further information regarding this report, please contact the Wastewater Branch at (808) 586-4294 or Safe Drinking Water Branch at (808) 586-4258.

ATTACHMENT 1

**DRINKING WATER TREATMENT REVOLVING LOAN FUND
PROJECTS RECEIVING SRF ASSISTANCE**

DRINKING WATER TREATMENT REVOLVING LOAN FUND PROJECTS RECEIVING SRF ASSISTANCE

No.	Final Agreement 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%	1,442,301.00
7	4/15/2002	109-0001 Pahala Well "B" (Replace Alii Tunnel) [Interim 7/15/01]	1.01%	539,060.00
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%	1,097,536.00
10	7/15/2003	404-0001 Rehabilitation of 27" Steel Pipe, Hanapepe-Element Water System [Interim 5/15/02]	0.99%	691,134.00
11	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
12	3/15/2004	413-0002 Wailua Homesteads Well No. 3 [Interim 7/15/03]	0.54%	418,967.00
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%	2,727,587.00
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%	2,481,289.00
18	9/15/2005	333-0001 California Avenue Water System Improvements, Parts II and III [Interim 4/15/05]	0.31%	4,288,963.00
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%	6,029,374.00
21	1/15/2007	408-0002 Poipu Road 16 inch Main Replacement [Interim 1/15/05]	0.16%	5,595,979.00
22	2/15/2007	105-0001 Honomu Well "A" (Replace Akaka Falls Spring) [Interim 12/15/03]	0.41%	292,767.00
23	3/15/2007	213-0003 Kamole Weir Water Treatment Facility Clear Well Replacement [Interim 1/15/05]	0.15%	10,907,123.00
TOTAL FINAL PROJECTS				69,471,848.60
Interim Binding Commitments				
No.	Interim Agreement Date	Project Description (Project Name - Based on the Interim Loan Agreement)	Rate	Loan Amount
1	5/15/2007	331-0018 Pearl City Water System Improvements	0.01%	1,433,476.00
2	5/15/2007	331-0024 Alewa Water System Improvements	0.01%	2,674,532.00
3	5/15/2007	331-0025 Liliha Water System Improvements, Phase B	0.01%	2,148,391.00
TOTAL INTERIM PROJECTS				6,256,399.00
TOTAL FINAL & INTERIM PROJECTS				75,728,247.60

DRINKING WATER TREATMENT REVOLVING LOAN FUND PROJECTS RECEIVING SRF ASSISTANCE

Planned (Future) Interim Binding Commitments

<u>Project Description ("New" Project Names - Based on Priority List)</u>	<u>Proposed Loan Amount</u>
106-0001 Kulaimano Well "B" (Replace Maukaloa Spring)	701,366.00
331-0026 Stadium Area Water System Improvements, Part I	2,162,569.00
332-0003 Haleiwa Road Water System Improvements	1,949,603.00
331-0028 Waikiki Water System Improvements	1,730,289.00
331-0031 Oahu Ave and Huelani Drive 8-inch Mains	1,473,527.00
331-0029 Manulani Street & Mowai Street 8-inch Mains	962,517.00
366-0002 COMSAT Access Road Water System Improvements, Phase B	1,430,753.00
332-0004 Kamehameha Highway 8-inch Mains	<u>2,894,958.00</u>
TOTAL PLANNED (FUTURE) COMMITMENTS	13,305,582.00
TOTAL FINAL, INTERIM, & PLANNED PROJECTS	89,033,829.60

ATTACHMENT 2

STATEMENT OF NET ASSETS

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF NET ASSETS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
ASSETS		
Current Assets		
Cash and cash equivalents in State Treasury (note C)	\$ 18,083,787.34	\$ 18,136,674.43
Due from other fund (note G)	392,700.00	365,000.00
Accrued Interest (note D)	51,262.87	41,882.05
Accrued Interest from Investment	162,091.75	130,208.98
Accrued Loan Fees, program (note D)	161,432.71	50,245.14
Accrued Loan Fees, non-program (note D)	123,672.37	77,437.68
Due from federal government	486,487.53	536,777.38
Current maturities of loans receivable (note D)	<u>2,078,020.59</u>	<u>980,712.05</u>
Total Current Assets	21,539,455.16	20,318,937.71
Loans Receivable, net of current maturities (note D)	38,801,457.63	15,987,959.04
Capital Assets		
Office Equipment (notes B and F)	907,706.40	837,851.57
Less: Accumulated Depreciation (notes B and F)	<u>(637,603.22)</u>	<u>(552,111.86)</u>
Total Office Equipment	270,103.18	285,739.71
Transportation Equipment (notes B and F)	47,233.06	47,233.06
Less: Accumulated Depreciation (notes B and F)	<u>(47,233.06)</u>	<u>(47,233.06)</u>
Total Transportation Equipment	<u>-</u>	<u>-</u>
Total Capital Assets	<u>270,103.18</u>	<u>285,739.71</u>
TOTAL ASSETS	<u>\$ 60,611,015.97</u>	<u>\$ 36,592,636.46</u>
LIABILITIES & NET ASSETS		
Current Liabilities		
Payroll Payable	\$ 50,879.42	\$ 14,679.64
Accounts Payable	76,578.98	7,594.24
Accrued Vacation, current portion (note B)	<u>974.70</u>	<u>-</u>
Total Current Liabilities	128,433.10	22,273.88
Accrued Vacation, net of current portion (note B)	19,678.25	-
Net Assets		
Invested in capital assets	270,103.18	285,739.71
Restricted	60,192,801.44	36,284,622.87
Unrestricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>60,462,904.62</u>	<u>36,570,362.58</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 60,611,015.97</u>	<u>\$ 36,592,636.46</u>

The accompanying notes are an integral part of this statement.

ATTACHMENT 3

**STATEMENT OF REVENUES, EXPENSES &
CHANGES IN NET ASSETS**

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

	Year Ended	
	June 30, 2007	June 30, 2006
REVENUES		
Interest earnings from Loans (note B)	\$ 197,017.86	\$ 181,195.57
Administration loan fee earnings, program (note B)	368,399.47	320,320.65
Administration loan fee earnings, non-program (note B)	421,891.42	165,708.11
Total Revenues	987,308.75	667,224.33
EXPENSES BY PROGRAM ACTIVITIES		
Administrative Cost - 4% set-aside	218,798.07	70,912.54
Admin. Technical Assistance - 4% set-aside	-	-
State Program Management - 10% set-aside	316,372.19	340,981.98
Source Water Protection - 10% set-aside	-	-
Capacity Development - 10% set-aside	-	-
Operator Certification - 10% set-aside	8,026.05	11,009.18
Small Systems Technical Assistance - 2% set-aside	227,500.00	130,000.00
Water Protection Program - 15% set-aside	-	5,975.57
Wellhead Protection Program - 15% set-aside	65,740.00	67,481.11
Technical or Financial Assistance - 15% set-aside	-	-
Admin Loan Fee - Program	51,416.05	234,208.32
Admin Loan Fee - Non Program	-	22,533.12
Total Expenses	887,852.36	883,101.82
OPERATING INCOME	99,456.39	(215,877.49)
NON-OPERATING REVENUES		
Federal contribution	21,353,756.49	4,072,285.64
State matching contribution	1,661,000.00	1,661,000.00
Interest earnings from Investment (note B)	777,241.56	560,765.53
Other Income	1,087.60	-
Total Non-operating Revenues	23,793,085.65	6,294,051.17
CHANGE IN NET ASSETS	23,892,542.04	6,078,173.68
Net assets - beginning of year	36,570,362.58	30,492,188.90
Net assets - end of year	\$ 60,462,904.62	\$ 36,570,362.58

The accompanying notes are an integral part of this statement.

ATTACHMENT 4

STATEMENT OF CASH FLOWS

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

Cash flows from operating activities:	
Interest income from loans	\$ 187,637.04
Admin Loan Fees	632,868.63
Principal repayments on loans	1,157,967.86
Disbursement of loan proceeds	(25,068,774.99)
Personnel costs	(198,505.42)
Payments to vendors	<u>(474,115.07)</u>
Net cash flows used in operating activities	(23,762,921.95)
Cash flows from noncapital financing activities:	
Net cash flows provided by noncapital financing activities	<u>23,037,346.34</u>
Cash flows from capital and related financing activities:	
Purchase of equipment	<u>(72,670.27)</u>
Net cash flows provided by capital and related financing activities	(72,670.27)
Cash flows from investing activities:	
Interest from investments	<u>745,358.79</u>
Net cash flows provided by investing activities	745,358.79
NET INCREASE IN CASH	(52,887.09)
Cash Balance at July 1, 2006	<u>18,136,674.43</u>
Cash Balance at June 30, 2007	<u>\$ 18,083,787.34</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 99,456.39
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	88,306.80
Changes in assets and liabilities:	
Increase in interest receivable on loans	(9,380.82)
Increase in administrative fee receivable on loans	(157,422.26)
Increase in accrued salaries and other administrative costs	126,925.07
Increase in loans receivable	<u>(23,910,807.13)</u>
Net cash provided by operating activities	<u>\$ (23,762,921.95)</u>

The accompanying notes are an integral part of this statement.

ATTACHMENT 5

NOTES TO FINANCIAL STATEMENTS

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE B - ACCOUNTING POLICIES

I. 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 Nonexchange 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 have the option under GASB 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The DWTRLF has elected to not apply FASB statements after the applicable date.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE B - ACCOUNTING POLICIES (continued)

2. Measurement Focus and Basis of Accounting (continued)

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 operations. 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. Capital Assets

Capital assets, which includes 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.

4. 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.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE B - ACCOUNTING POLICIES (continued)

5. 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.

6. 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.

7. 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.

8. 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, 2007, accumulated sick leave was approximately \$25,800.00.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

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.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE D - LOANS RECEIVABLE

At June 30, 2007, the DWTRLF had outstanding loan receivables with the following government entities:

Five 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.

\$ 13,439,746.29

Seven 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.

\$ 5,599,766.66

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE D - LOANS RECEIVABLE (continued)

Nine 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.

\$12,864,081.74

Two 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.

\$ 8,975,883.53

Total

\$40,879,478.22

State of Hawaii
 Drinking Water Treatment Revolving Loan Fund
 NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE D - LOANS RECEIVABLE (continued)

Loans mature at various dates through 2027. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2008	\$ 2,078,020.59
SFY2009	\$ 2,339,212.01
SFY2010	\$ 2,353,839.78
SFY2011	\$ 2,368,902.68
SFY2012	\$ 2,383,945.43
Thereafter	<u>\$29,355,557.73</u>
	\$40,879,478.22

As of June 30, 2007, accrued interest receivable, accrued administration loan fee receivable - program income, and accrued administration loan fee receivable - non-program income on loans totaled \$51,262.87, \$161,432.71, and \$123,672.37, 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, 2007, the DWTRLF has committed to make additional loans to the following government entities:

City & County of Honolulu, Board of Water Supply	\$ 6,256,399.00
County of Hawaii, Water Board	-
County of Kauai, Board of Water Supply	-
County of Maui, Board of Water Supply	<u>-</u>
Total	\$ 6,256,399.00

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE E - FEDERAL FUNDING AND STATE MATCH

The DWTRLF is capitalized by grants from EPA authorized by Title VI of the Act with matching funds from the State. As of June 30, 2007, EPA has awarded \$83,564,500.00 to the State, of which \$42,263,962.97 has been drawn for loans and set asides. The State has also legislated matching funds of \$16,712,900.00, of which \$14,350,732.85 has been committed.

The following summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2007:

<u>Budget Period</u>	<u>FFY</u>	<u>Amount</u>	<u>Total Cash Draws</u>	<u>EPA Draws (Deducted prior to issuance of cap grant)</u>	<u>Funds Available</u>
12/05/97 - 06/30/06	97	\$12,558,800.00	\$12,558,800.00	\$ -	\$ -
09/24/98 - 09/30/08	98	7,121,300.00	7,100,164.06	-	21,135.94
02/04/00 - 09/30/07	99	7,463,800.00	7,277,655.26	-	186,144.74
02/26/01 - 06/30/08	00	7,757,000.00	5,237,354.80	75,000.00 ¹	2,444,645.20
09/01/02 - 09/30/08	01	7,789,100.00	6,299,093.89	24,000.00 ²	1,466,006.11
10/01/03 - 06/30/11	02	8,052,500.00	2,754,988.09	-	5,297,511.91
04/01/04 - 06/30/11	03	8,004,100.00	730,799.91	-	7,273,300.09
10/01/05 - 06/30/13	04	8,303,100.00	305,106.96	-	7,997,993.04
09/01/06 - 06/30/16	05	8,285,500.00	-	2,500.00 ³	8,283,000.00
07/01/07 - 06/30/17	06	<u>8,229,300.00</u>	<u>-</u>	<u>-</u>	<u>8,229,300.00</u>
		\$83,564,500.00	\$42,263,962.97	\$101,500.00	\$41,199,037.03

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 \$75,000 was deducted prior to the issuance of the cap grant. Therefore, the \$75,000 shows up in EPA's records and not in FAMIS.

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

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

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE E - FEDERAL FUNDING AND STATE MATCH (continued)

The following summarizes the State match funds for each EPA capitalization grant awarded to the DWTRLF. This 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, 2007.

Federal Fiscal Year	Source of State Funds	20% State Match Amount
97	Act 328/27	\$ 2,511,760.00
98	Act 116/98	\$ 1,424,260.00
99	Act 091/99	\$ 1,492,760.00
00	Act 091/99	\$ 28,400.00
	Act 281/00	<u>1,523,000.00</u>
	Total 00 Match	\$ 1,551,400.00
01	Act 328/97	\$ 603,240.00
	Act 259/01	<u>954,580.00</u>
	Total 01 Match	\$ 1,557,820.00
02	Act 177/02	\$1,011,500.00
	Act 259/01	596,420.00
	Act 091/99	1,840.00
	Act 116/98	<u>740.00</u>
	Total 02 Match	\$ 1,610,500.00
03	Act 200/03	\$1,061,320.00
	Act 177/02	<u>539,500.00</u>
	Total 03 Match	\$ 1,600,820.00
04	Act 41/04	\$1,110,940.00
	Act 200/03	<u>549,680.00</u>
	Total 04 Match	\$ 1,660,620.00

State of Hawaii
 Drinking Water Treatment Revolving Loan Fund
 NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE E - FEDERAL FUNDING AND STATE MATCH (continued)

05	Act 178/05	\$1,157,040.00	
	Act 41/04	<u>500,060.00</u>	
	Total 05 Match		\$ 1,657,100.00
06	Act 160/06	\$1,141,900.00	
	Act 178/05	<u>503,960.00</u>	
	Total 06 Match		<u>\$ 1,645,860.00</u>
	Total 20% State Match		\$16,712,900.00

NOTE F - EQUIPMENT

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

	Balance at <u>July 1, 2006</u>	<u>SFY 2007</u>		Balance at <u>June 30, 2007</u>
		<u>Increases</u>	<u>Decreases</u>	
Equipment	\$885,084.63	\$ 72,670.27	\$ 2,815.44	\$954,939.46
Accumulated Depreciation	599,344.92	88,306.80	\$ 2,815.44	684,836.28
	<u>\$285,739.71</u>	<u>(\$ 15,636.63)</u>	<u>\$ -</u>	<u>\$270,103.18</u>

NOTE G - RELATED PARTY TRANSACTIONS

For the year ended June 30, 2007, the following funds were advanced to the:

Environmental Management, Public Water System Supervision	\$366,000.00
Environmental Management, Environmental Planning Office	<u>26,700.00</u>
	\$392,700.00