

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

STATE WATER POLLUTION CONTROL REVOLVING FUND

**PURSUANT TO SECTION 342D-82,
HAWAII REVISED STATUTES
RELATING TO THE
STATE WATER POLLUTION CONTROL REVOLVING FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL HEALTH ADMINISTRATION
ENVIRONMENTAL MANAGEMENT DIVISION
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 342D-82 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 Water Pollution Control Revolving Fund (WPCRF) 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 WPCRF is to make low interest loans to local governments to improve and expand their water pollution control infrastructure and help to protect the public's health and Hawaii's environment.

B. EXECUTIVE SUMMARY

The WPCRF is in its 18th year of operation and continues to make low interest loans to Hawaii's four Counties for the construction of water pollution control infrastructure projects.

Major Activities in SFY 2007

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

- Executed five (5) final loan agreements with a total project value of \$105.47 million;
- Executed three (3) interim loan agreements with a total estimated project value of \$94.4 million;
- Continued to work on three (3) interim loan agreements with a total estimated value of \$11.5 million;
- Continued to work with all counties on a number of other potential projects which we anticipate will become future loan projects;
- Continued to work with all counties on finalizing interim loans from prior years;
- Serviced 63 interim and final loans with an estimated value of \$411.9 million;
- Applied for the FFY 2007 capitalization grant funds from EPA;
- Requested and received the State's 20% match of approximately \$2 million from the Legislature;
- Continued to work with the Honolulu Board of Water Supply in anticipation of making a number of future loans for the construction of various recycle water projects. Such projects have been given a high priority for SRF funding; and
- Continued to improve the WPCRF program's fund utilization rate to 86%, exceeding the target of 82% set by EPA, Region IX.

Major Changes Made During SFY 2007

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

- During SFY 2007, all SRF positions within the Wastewater Branch were filled;
- The Attorney General's Office continued to support the program and has assigned a deputy attorney general to the SRF program. Both the program and the Attorney General's Office continued to make minor necessary changes to the SRF model loan language enabling the program and counties to execute both interim and final loan agreements;
- As a result of lower interest and fee rates, the SRF program's largest client, the City and County of Honolulu, is actively working to execute major interim and final loan agreements estimated to be valued in excess of \$150 million; and
- Program staff continues to meet formally and informally with all other counties to provide resources to facilitate execution of loan documents.

The program has met its objectives of: a) providing low interest loans to Hawaii's four counties for the construction of high priority wastewater infrastructure needs; b) operating the program in perpetuity and in such a manner that it is self-sufficient; and c) complying with all EPA SRF program requirements including federal cross cutters, MBE/WBE requirements and standard accounting practices. This conclusion is supported by EPA's 2006 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 grow at a moderate pace and the program does not see any indication of an adverse impact to our loan making capabilities to our four counties. We believe that the program will also be expanded to various county water departments for recycling water projects as well as to non-traditional centralized and decentralized wastewater projects. Manpower resources will continue to be a problem for the program as reporting needs increase, EPA imposes additional requirements on the program, and servicing loans and marketing the program continue to grow.

The following major activities will be conducted in SFY 2008:

- Continuing to service existing loans;
- Receiving the FFY 2007 Federal Capitalization (CAP) Grant from EPA;
- Submitting a request to the 2008 Legislature for the State's 20% match to EPA's CAP Grant;
- Working with all counties to insure that the model loan agreement languages are updated and 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 fiscal year 2008;
- Expanding the program by making loans to various water departments for recycling water projects and to non-point source pollution control projects;
- Expanding the program into a non-centralized wastewater systems as well as exploring creative financing for county sponsorship of such projects; and
- Finally, the program will closely monitor its cash flow to insure that all commitments are fulfilled.

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 \$2,053,000.00.

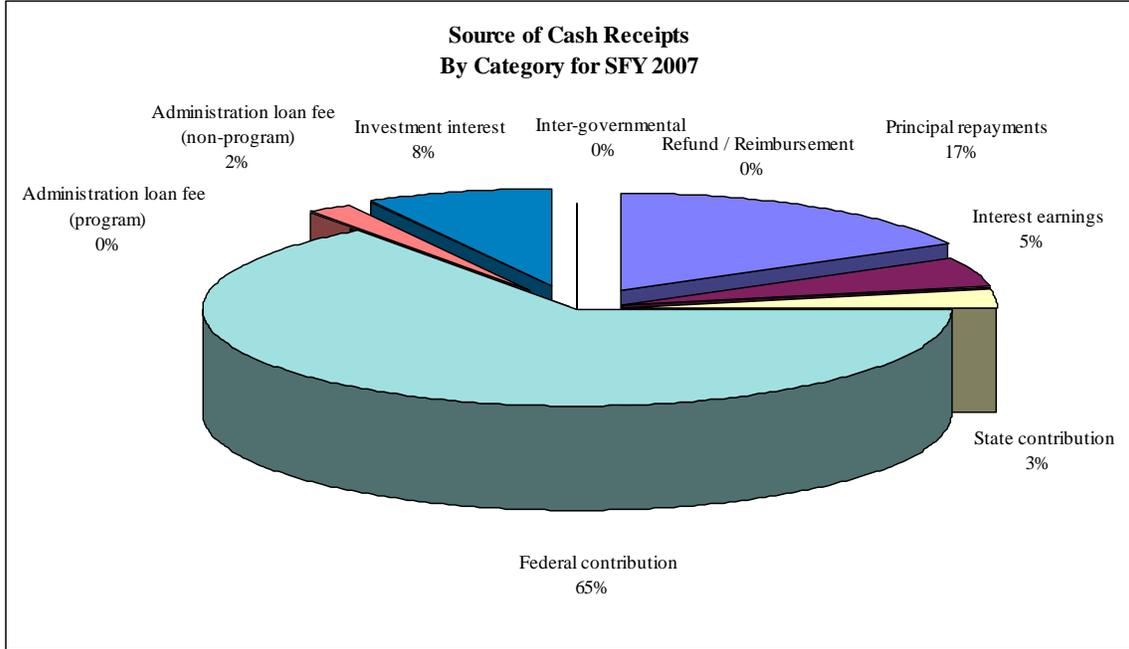
An overview of the WPCRF program for SFY 2007 includes the following:

| | |
|--|-------------------------------|
| a. Funds withdrawn from the federal Automated Standard Application for Payments (ASAP) system: | \$ 49,307,031.32 ¹ |
| b. State match funds for FFY 2006 Federal Capitalization Grant provided: | \$ 2,053,000.00 |
| c. State match funds distributed: | \$ 9,649,697.98 |
| d. Loans executed: | |
| Five Final Loan Agreement: | \$105,466,483.00 |
| Three Interim Loan Agreements | 94,399,631.00 |
| One Supplemental Loan Agreement | <u>11,951,083.00</u> |
| Total Loans Executed: | \$211,817,197.00 |
| e. Principal repayment received: | \$ 13,119,251.61 |
| f. Interest repayments received: | \$ 3,429,702.40 |

¹ Total funds withdrawn from the federal ASAP system should be \$49,309,531.32. 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 WPCRF 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 counties. 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 signed in SFY 2007:

| <u>County</u> | <u>Project Description</u> | <u>Project Location*</u> | <u>Loan Amount</u> |
|---------------|---|--|--------------------|
| Maui | Lahaina Wastewater Pump Station No. 4 Modifications (Executed 5/15/07) | Senate District 5 House District 10 | \$ 1,700,000 |

| | | | |
|-------------------------------|--|--|---------------|
| Kauai | Wailua/Kapaa Sewer System Improvements (Executed 5/15/07) | Senate District 7 House District 13, 14 | \$ 4,500,000 |
| Honolulu | Sand Island Wastewater Treatment Plant Primary Expansion Phase I (Executed 6/15/07) | Senate District 13 House District 29 | \$ 88,199,631 |
| TOTAL INTERIM LOAN AGREEMENTS | | | \$ 94,399,631 |

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

| <u>County</u> | <u>Project Description</u> | <u>Project Location*</u> | <u>Loan Amount</u> |
|-----------------------------|--|--|--------------------|
| Hawaii | Hawaii County Cesspool Conversion Project (Executed 9/15/06) | Senate District 1, 2, 3 House District 1 thru 7 | \$ 8,908,035 |
| Kauai | Waimea Wastewater Treatment Plant Effluent Disposal System (Executed 1/15/07) | Senate District 7 House District 16 | \$ 2,158,817 |
| Maui | Lahaina Wastewater Pump Station No. 4 Modifications (Executed 5/15/07) | Senate District 5 House District 10 | \$ 1,700,000 |
| Kauai | Wailua/Kapaa Sewer System Improvements (Executed 5/15/07) | Senate District 7 House District 13, 14 | \$ 4,500,000 |
| Honolulu | Sand Island Wastewater Treatment Plant Primary Expansion Phase I (Executed 6/15/07) | Senate District 13 House District 29 | \$ 88,199,631 |
| TOTAL FINAL LOAN AGREEMENTS | | | \$105,466,483 |

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

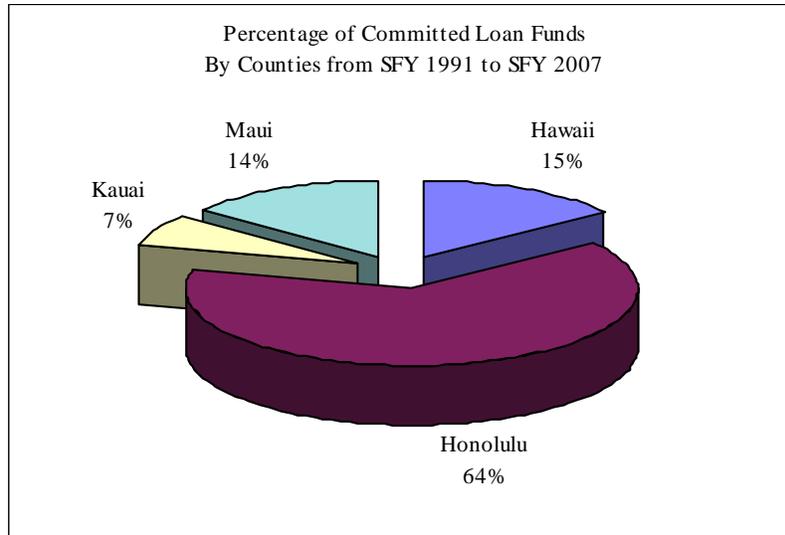
| <u>County</u> | <u>Project Description</u> | <u>Project Location*</u> | <u>Loan Amount</u> |
|------------------------------------|--|---------------------------------------|--------------------|
| Maui | Wailuku-Kahului Wastewater Reclamation Facility Modifications, Phase II (Executed 2/15/07) | Senate District 4 House District 9 | \$ 11,951,083 |
| TOTAL SUPPLEMENTAL LOAN AGREEMENTS | | | \$ 11,951,083 |

d. The following WPCRF projects were awarded Interim Loan Agreements in previous fiscal years and continues to be processed for Final Loan Agreements:

| <u>County</u> | <u>Project Description</u> | <u>Project Location*</u> | <u>Loan Amount</u> |
|----------------------------------|---|---------------------------------------|--------------------|
| Maui | Wailuku-Kahului Wastewater Pump Station Force Main Replacement (Executed 7/15/04) | Senate District 4 House District 9 | \$ 7,360,000 |
| Hawaii | Komohana Heights Large Capacity Cesspool Replacement (Executed 4/15/05) | Senate District 1 House District 1 | \$ 1,282,600 |
| Hawaii | Honokohau Effluent Reuse (Executed 4/15/05) | Senate District 3 House District 6 | \$ 2,860,000 |
| TOTAL LOAN AGREEMENTS IN PROCESS | | | \$ 11,502,600 |

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

Graph 2.



D. GOALS AND ACCOMPLISHMENTS

Section 606(c) of the Clean Water Act requires the State to prepare a plan, an Intended Use Plan (IUP), identifying the intended uses of funds in the WPCRF and to describe how those uses support the goals of the WPCRF program. The IUP is prepared annually and made available for public comment and review. The program published its SFY 2007 IUP on April 10, 2006. The IUP is also a requirement in the State's SRF Capitalization Grant Application process to EPA.

The following describes the results the program achieved relative to the Environmental Benefits Reporting and stated long and short term goals contained in the IUP:

Environmental Benefits of Projects:

To satisfy the mandatory output/outcome requirements of EPA Order 5700.7, the WPCRF Program has completed Environmental Benefits "One-Pager" worksheets for all projects that entered into a binding commitment during SFY 2007.

Long Term Goals:

- I. The WPCRF Program will assist WPCRF Loan Applicants to achieve compliance with Federal and State water quality standards.

To ensure compliance with federal and state water quality standards, the WPCRF Program gives priority to projects that are under compliance constraints involving either the federal or state standards. The Program also gives preference to projects needed to sewer existing communities and to fully utilize existing wastewater treatment facilities.

2. The WPCRF Program will assist the WPCRF Loan Applicants in protecting the public health and environment of Hawaii from both point source and non-point source (NPS) pollution.

Six of the WPCRF projects that were in construction during SFY 2007 involved the protection of the public health and the environment by the control of point source pollution. These projects included upgrades to the Sand Island Wastewater Treatment (WWTP) odor control and gravity thickener systems, modification of the Ala Moana, Lahaina No. 4, and Kahului Wastewater Pump Stations (WWPS's), the sewer line replacement for Leho Drive, and the installation of a new injection well and effluent line for the Waimea WWTP.

Two WPCRF projects that were in construction during SFY 2007 involved addressing non-point source pollution problems. The Kauai County Cesspool Conversion Project involved replacing twenty-seven (27) large-capacity cesspools with new individual wastewater systems. The Hawaii County Cesspool Conversion Project involved replacing ninety (90) large-capacity cesspools with new individual wastewater systems.

3. The WPCRF Program will assist the WPCRF Loan Applicants to conserve and safely recycle wastewater effluent.

One WPCRF project that was in construction during SFY 2007 involved the replacement of an effluent filter system at the Wailua Wastewater Treatment Plant. The effluent from the Wailua WWTP is currently being recycled to irrigate the Wailua Golf Course. The new effluent filter system was installed for the effluent to meet compliance with the Department of Health's wastewater reuse standards.

4. The WPCRF Program will establish and support other financial programs and incentives by funding non-point source projects on private lands.

The WPCRF Program has determined that participation in a linked deposit loan program would not be feasible to implement. With increased administrative needs to develop a new loan program and the added record-keeping associated with implementing such a loan program, it was decided that there was no advantage to the program in seeking further discussions on this matter. Therefore, in the near future, the program will not seek to establish a linked-deposit loan program. Instead, continued efforts in getting communities involved through sponsorships with ongoing WPCRF loans will be pursued.

5. The WPCRF Program will allocate financial assistance in a priority manner based upon non-compliance and water quality impacts of the proposed projects.

The WPCRF Program continues to fund projects based on the ranking order on the integrated priority list. Projects involving non-compliance and/or water quality issues currently rank high on the list.

6. The WPCRF Program will apply program requirements that are simple, understandable, applicable to all projects, and do not add unnecessary burden to the WPCRF Loan Applicant.

The WPCRF Program continues to find ways to streamline the loan application process to make it easier for all WPCRF Loan Applicants.

7. The WPCRF Program will operate as a revolving fund in perpetuity.

The program continues to offer WPCRF loans at rates which are below market interest rates while at the same time, maintaining the strength of the fund. During SFY 2007, the WPCRF Program was able to reduce the loan rates to 0.5%. There were three loans that were executed during SFY 2007 with these reduced rates. The program continues to pursue state matching funds from the Legislature and applying for EPA SRF capitalization grants. In addition, the program implemented loan fees which provide additional revenues to help administer the program. Both program and non-program costs are monitored to insure that funds are being properly utilized and to insure that program costs do not exceed revenues.

Short Term Goals:

1. To protect the public health and environment of Hawaii, the WPCRF Program will give priority to documented non-compliance projects and projects that impact water quality when presented for WPCRF funding.

The WPCRF Program continues to fund projects based on the ranking order on the priority list. Projects involving non-compliance and/or water quality issues currently rank high on the list.

2. To protect the public health and environment of Hawaii, the WPCRF Program will fund point source pollution control projects that reduce pollution loadings.

Six of the WPCRF projects that were in construction during SFY 2007 involved the protection of the public health and the environment by the control of point source pollution. These projects included upgrades to the Sand Island WWTP odor control and gravity thickener systems, the modification of the Ala Moana, Lahaina No. 4, and Kahului WWPS's, the sewer line replacement for Leho Drive, and the installation of a new injection well and effluent line for the Waimea WWTP.

3. To protect the public health and environment of Hawaii, the WPCRF Program will fund non-point source pollution control projects which deal with watershed restoration issues and address problems such as stormwater runoff and contamination from cesspool and septic systems, injection wells, animal waste areas, solid waste landfills, underground storage tanks, and brownfield sites.

The Hawaii and Kauai Counties Cesspool Conversion Projects were documented compliance projects that were constructed during SFY 2007 by the WPCRF Program. The projects involved replacing large capacity cesspools with new wastewater systems. The large capacity cesspools were required to be replaced for compliance with Federal Regulations 40 CFR § 144.88(a)(1)(i).

4. To conserve the potable water resources of Hawaii, the WPCRF Program will support projects which conserve and safely recycle wastewater effluent.

One WPCRF project that was in construction during SFY 2007 involved the replacement of an effluent filter system at the Wailua Wastewater Treatment Plant. The effluent from the Wailua WWTP is currently being used to irrigate the Wailua Golf Course. The new effluent filter system was installed for the effluent to meet compliance with the Department of Health's wastewater reuse standards.

5. The WPCRF Program will provide financial assistance in the form of loans, which are competitive with other financing options available to eligible applicants while still assuring the program is operated in perpetuity.

The program continues to offer WPCRF loans at rates which are below market interest rates while at the same time, maintaining the strength of the fund. During SFY 2007, the WPCRF Program was able to reduce the loan rates to 0.5%. There were three loans that were executed during SFY 2007 with these reduced rates.

6. To maintain the viability of the fund, the WPCRF Program will pursue annual capitalization grants from EPA and State-match appropriations from the Legislature.

The program continues to apply for federal capitalization grants and pursue state-match funds to finance needed WPCRF projects. The EPA awarded the state its FFY 2005 and 2006 capitalization grants and the 2006 Hawaii State Legislature appropriated the required matching funds. Efforts will be maintained to obtain similar funding during the upcoming 2007 legislature session.

E. COMPLIANCE MATTERS

The Hawaii WPCRF program has complied with the applicable requirements outlined in the Operating agreement, Chapter II Implementation, Section C, State Assurances and Certifications. These requirements included the following:

1. Environmental Review - Each WPCRF project for SFY 2007 underwent an environmental assessment and review. Environmental assessment documents were prepared by the Counties in accordance with HRS Chapter 343 (Environmental Impact Statements) and the HAR Chapter 11-200, and were submitted to the Office of Environmental Quality Control (OEQC) of the State of Hawaii for review and publication.

The Program oversaw the environmental review process for all WPCRF projects funded during this past fiscal year to ensure that they were in compliance with all state and federal requirements. Each applicant also certified that they had conducted a current assessment of the environmental impacts of the project and disclosed in the environmental assessment documents all known significant environmental impacts of the proposed project.

2. Intended Use Plan - The program's Intended Use Plan was published on April 10, 2006.
3. Other Federal ("Cross-cutter") Requirements - The Counties certify for each of their WPCRF projects that they are in compliance with all of the federal cross-cutter rules and regulations.

FINANCIAL SECTION

The following is a summary of the financial activities of the program for state fiscal year ended June 30, 2007. The Department of Health (DOH) considers the WPCRF to be a special revolving fund. The fund was established to receive the proceeds of 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 WPCRF program is responsible for implementing 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 the WPCRF 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 \$195,144,248² in federal capitalization grants. Of this amount, \$5,685,724.73 has been set aside to administer the loan program and the remaining \$189,458,523.27 is being used for WPCRF loan funds.

2. State Match:

Pursuant to Act 160, the 2006 Hawaii State Legislature appropriated \$2,053,000.00 in general obligation bond funds for the required state match to the FFY 2006 EPA SRF Capitalization Grant. The state match was transferred to the WPCRF's account in April 2007.

² As of June 30, 2007, EPA has not awarded the WPCRF program's FFY 2007 capitalization grant of \$8,273,000.

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 \$185,002,845.13 of federal capitalization grant funds and \$38,038,706.67 of state match funds to WPCRF projects, a 7.3% and 6.3% increase, respectively. These funds have benefitted communities of all sizes in the State of Hawaii.

The State of Hawaii defines an interim loan agreement as the legal obligation document binding the term of WPCRF 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 Water Quality Act of 1987 requires states to commit the SRF funds in a timely manner and to expedite fund disbursements to loan recipients. The SRF program binded \$367,126,209.31 or 89.1% of all federal funds available since inception of the program. The program also has another \$188,492,006.14 in pending commitments which, when executed, will bring the total binding commitment percentage to over 100% of all funds available or 134.9%.

4. Assistance as a Percentage of Funds Available:

The WPCRF's percentages for Assistance as a Percentage of Funds Available, based on NIMS for 2003, 2004, 2005, 2006, and 2007 were: 65%, 57%, 54%, 68%, and 86%, respectively. The program's goal for 2007 was set at 82%; and for 2008, the goal is 92%.

5. Disbursements as a Percentage of Executed Loans:

The WPCRF's percentages for Disbursements as a Percentage of Executed Loans, based on NIMS, for 2003, 2004, 2005, 2006, and 2007 were: 96%, 99%, 99%, 74%, and 70%, respectively.

6. Automated Standard Application for Payments (ASAP):

The program drew \$49,307,031.32³ of EPA Capitalization Grant funds from the ASAP

³ Total funds withdrawn from the federal ASAP system should be \$49,309,531.32. 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.

payment system during the SFY 2007. Of this amount, \$48,873,530.38 was disbursed to WPCRF loans and \$433,500.94 was used for WPCRF program administration.

7. Loan Repayments and Investment Interest:

Under the WPCRF, 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 clean water infrastructure projects and eligible administrative costs relating to the operation and maintenance of the WPCRF program.

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

- Account code 402 - Principal from repayments of federal loans;
- Account code 403 - Interest from repayments and investments of federal loans;
- Account code 406 - Principal from repayments of state loans; and
- Account code 407 - Interest from repayments of state loans.

In SFY 2007, DOH received \$11,049,642.46 from principal from repayments of federal loans, \$2,997,347.62 from interest from repayments of federal loans, \$2,069,609.15 principal from repayments from state loans, \$432,354.78 from interest from repayments of state loans, and \$6,252,009.23 from investment interest.

For SFY 2008, the program is projected to receive principal and interest repayments and investment interest of \$15,384,626.55, \$3,332,496.70, and \$3,799,394.76, respectively.

8. MBE / WBE:

The recipients of WPCRF loans utilizing federal funds are required to make efforts to procure Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE). The Department of Health agreed to the following MBE and WBE fair share goals in Hawaii:

| | <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, WPCRF loan recipients awarded Clean Water construction contracts to MBE's and WBE's and the program procured MBE services and supplies as follows:

| | <u>Total Procurement 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> |
|--------------|---------------------------------|------------------------------|--------------------------------------|------------------------------|--------------------------------------|
| Services | \$ 178,561.25 | \$ 10,451.70 | 5.9% | \$ 3,030.46 | 1.7% |
| Construction | \$138,343,465.58 | \$ 152,444.00 | .1% | \$ - | 0.0% |

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 submitted directly to EPA on a quarterly basis. All such forms are signed by the program's authorized representative and are on file with EPA.

C. PROGRAM ACTIVITIES

The highlights of the program activities are as follows:

Program Activities:

1. The program completed a priority list, developed the SFY 2007 Intended Use Plan, and prepared the capitalization grant application.
2. The program serviced sixty-three (63) interim and final WPCRF loan agreements totaling \$411.9 million.
3. The program reviewed planning documents (including the preliminary engineering reports, plans and specifications, environmental assessment documents, and federal requirement documents) for eight (8) projects.
4. The program executed three (3) interims, five (5) finals, and one (1) supplemental loan agreement for \$94,399,631, \$105,466,483, and \$11,951,083, respectively.
5. The program conducted nineteen (19) construction inspections of ongoing WPCRF projects under construction.

Administration Loan Fees and Administration Cost (4%)

The State does not contribute any money toward administering the WPCRF Program and its water-related activities. Furthermore, Federal law requires that the WPCRF program be

operated in perpetuity. Thus, in order to pay for employee salaries and benefits and comply with the Federal law, the DOH implemented a loan fee program in January 1997. For SFY 2007, the WPCRF collected \$297,331.28 in administration loan fee - program income and \$1,226,380.90 in administration loan fee - non-program income.

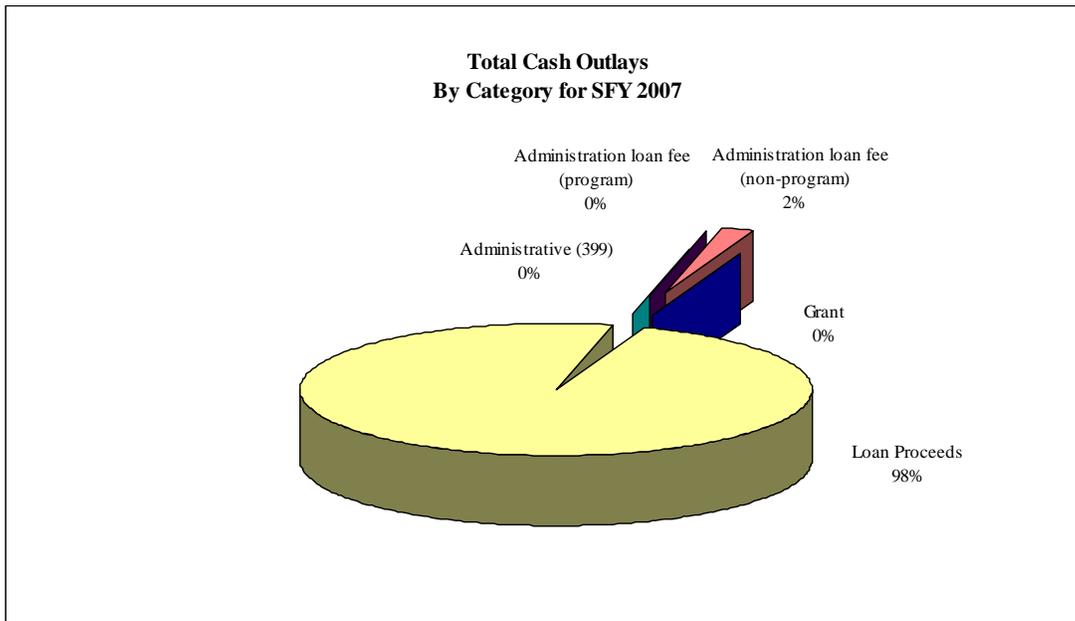
In addition, the program can use up to four percent (4%) of each year's federal capitalization grant to pay for administrative costs. Administrative costs are prorated based on the program activities and man-hours spent in each activity. The cost to administer the WPCRF program and its wastewater related activities for SFY 2007 was \$1,377,105.40. Of this amount, \$114,365.91 was paid by administration loan fee - program income; \$999,073.39 was paid by administration loan fee - non-program income; and \$263,666.10 was paid by administration cost (4%) funds.

Loan Disbursement

The WPCRF program disbursed \$63,509,827.66 in loan funds in SFY 2007, an increase of \$59,918,667.39 over the previous year. \$48,869,016.16 of federal funds were drawn down, which resulted in the closure of eight capitalization grants (FFY's: 1992, 1994, 1996, 1997, 1998, 1999, 2000, and 2001).

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

Graph 3.



Non-Program Activities:

The program, as part of the State’s Water Quality effort, conducted 109 operational and maintenance inspections of various public and private wastewater treatment facilities as well as 77 wastewater pump stations throughout the State. In addition, the program funded efforts in recycled water use, beneficial use of biosolids, animal waste management practices, and wastewater investigation and enforcement activities.

D. CREDIT RISKS OF THE WPCRF 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 and credit and/or a pledge of general obligation bonds or a dedicated revenue source.

The program lacks the necessary resources to conduct a comprehensive wastewater service and operational analysis. However, each county has its own long-term capital improvement plan as well as long-term facilities plans. 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 below, contains specific information regarding the credit worthiness of the four WPCRF recipients. The table shows the credit rating categories for these recipients. The G.O. Bond credit agencies, Moody’s and Fitch, gave every Hawaii county an “A” or “A-” rating. In summary, the DOH feels that the credit pool of WPCRF’s loan portfolio has a high degree of solvency.

Table I.

| <u>Recipients</u> | <u>Committed Amount</u> | <u>Moody’s/ Fitch Bond Ratings</u> | <u>Percentage of WPCRF Loan Portfolio</u> |
|--------------------------------|-------------------------|--|---|
| City and County of Honolulu | \$265,185,606.21 | Aa2/AA | 64.4% |
| County of Hawaii | 60,369,940.64 | A1/A+ | 14.6% |
| County of Maui | 58,472,666.86 | Aa3/AA- | 14.2% |
| County of Kauai | <u>27,888,823.62</u> | A1/A+ | <u>6.8%</u> |
| Totals | \$411,917,037.33 | | 100% |

E. OTHER INFORMATION

This report was prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and Reporting Requirements requested by EPA as well as Hawaii Revised Statutes, Section 342-34.

Independent Audit: The accounting firm of Accuity, LLP has been selected by the DOH to perform a financial audit of the WPCRF Program's activities. Although the activities and financial statement for fiscal year 2007 are unaudited as of the date of this report, Accuity, LLP did perform an annual financial audit of the WPCRF Program for SFY 2006.

Accuity's financial statement and independent auditor's report on the WPCRF for SFY 2006 was published on November 7, 2006. On page 20 of the audit report, the report reads, "*In our opinion, the State of Hawaii, Water Pollution Control Revolving 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.*"

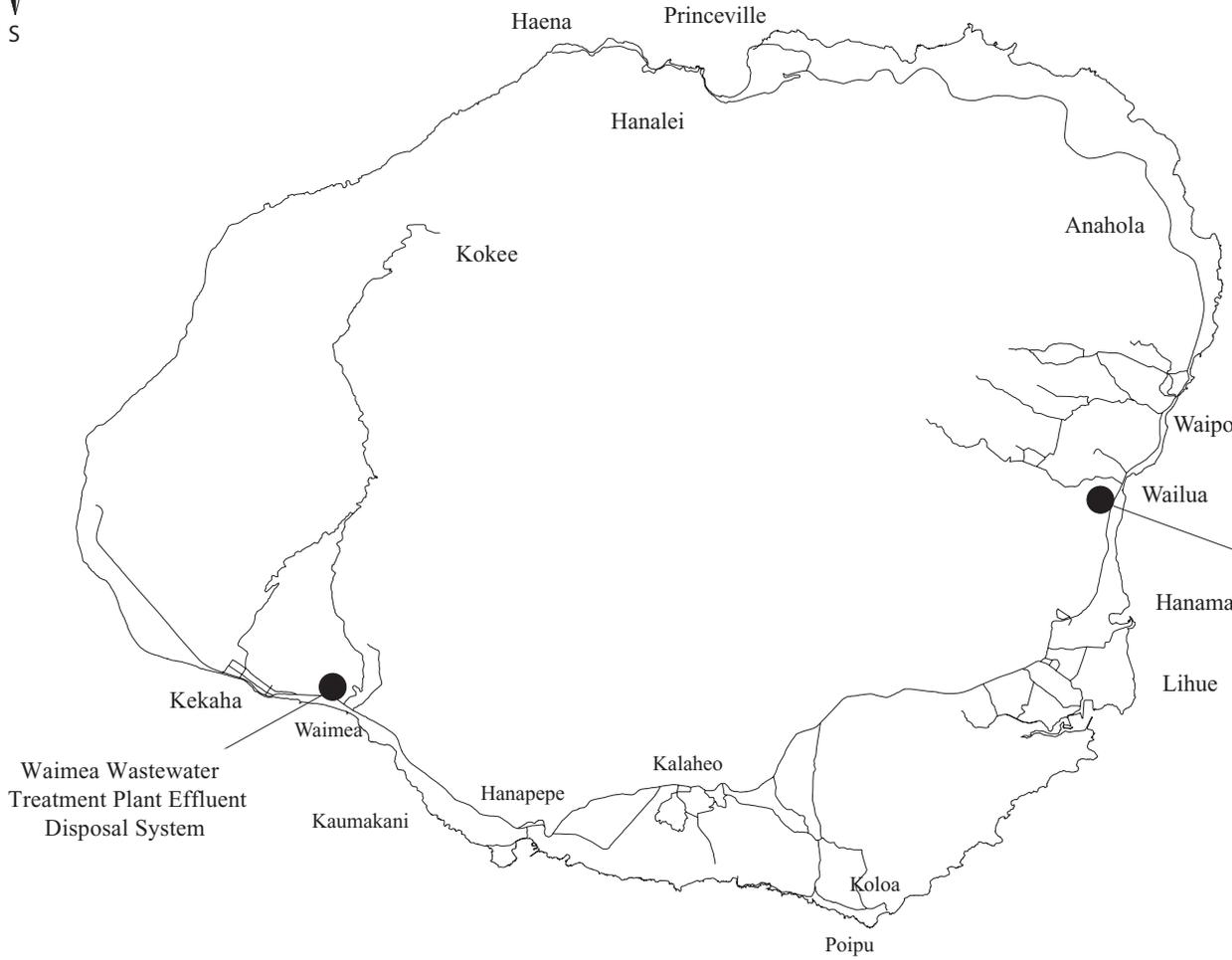
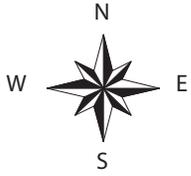
The auditor's report for SFY 2007 WPCRF financial statements will be completed and published sometime in November 2007.

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

ATTACHMENT I

WPCRF PROJECT LOCATION MAPS

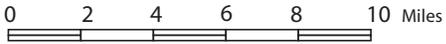
Island of
Kaua'i
WATER POLLUTION
CONTROL REVOLVING
FUND PROJECTS

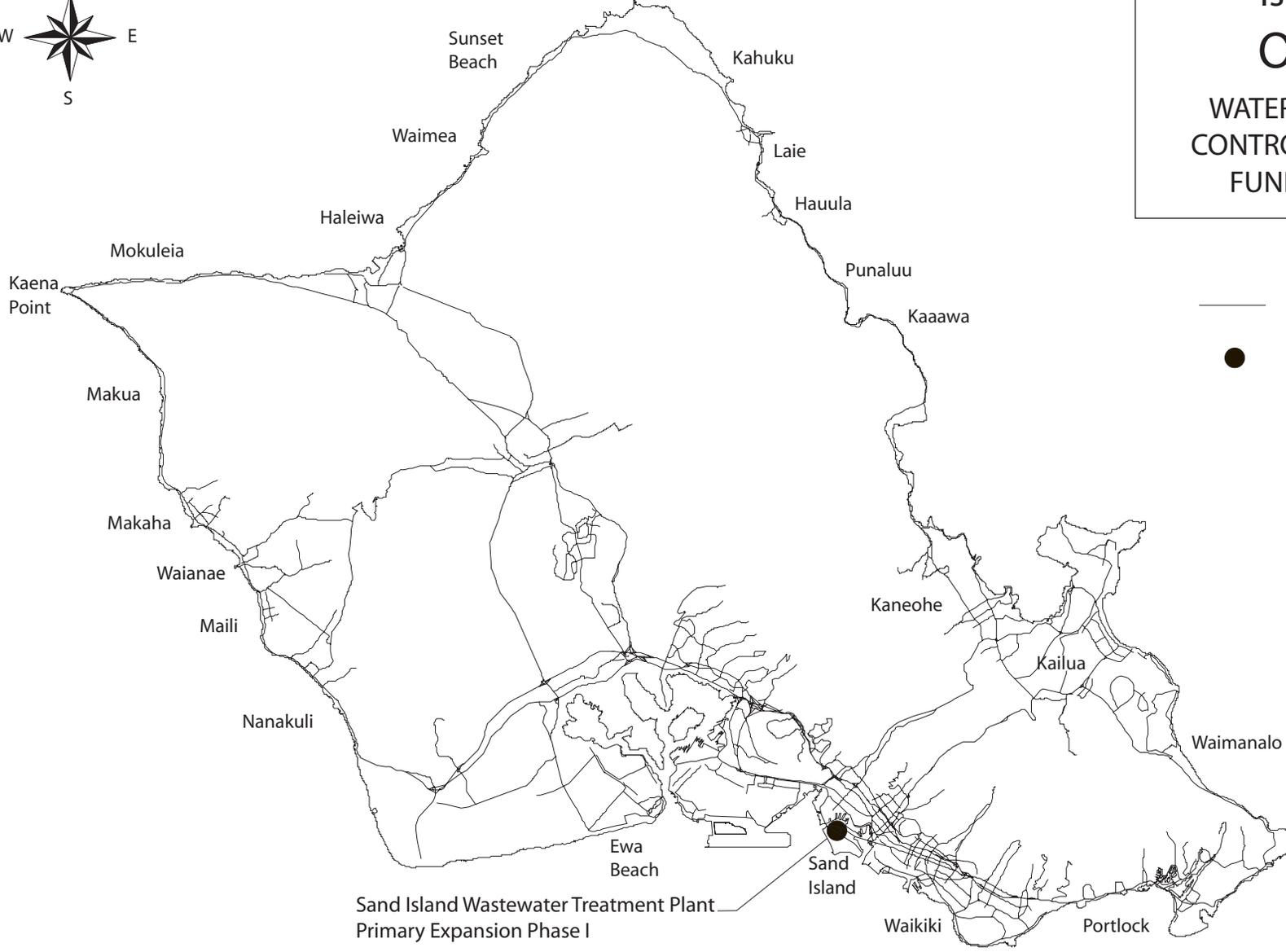
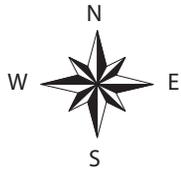


- Major Roads
- Project Sites

Wailua/Kapaa Sewer System Improvements

Waimea Wastewater Treatment Plant Effluent Disposal System





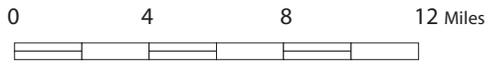
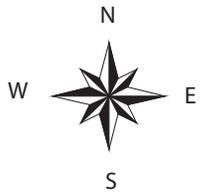
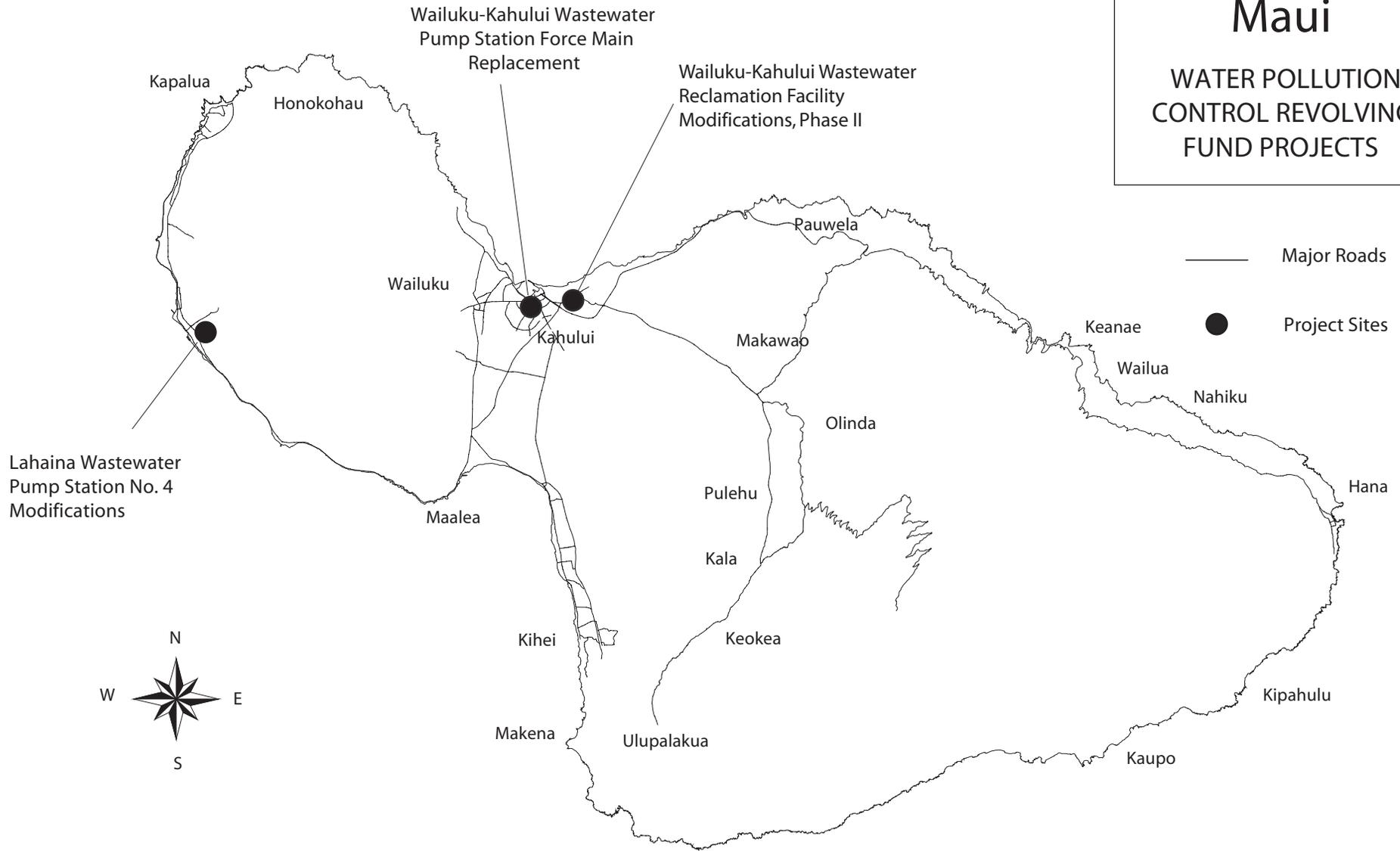
Island of
O'ahu
WATER POLLUTION
CONTROL REVOLVING
FUND PROJECTS

- Major Roads
- Project Sites



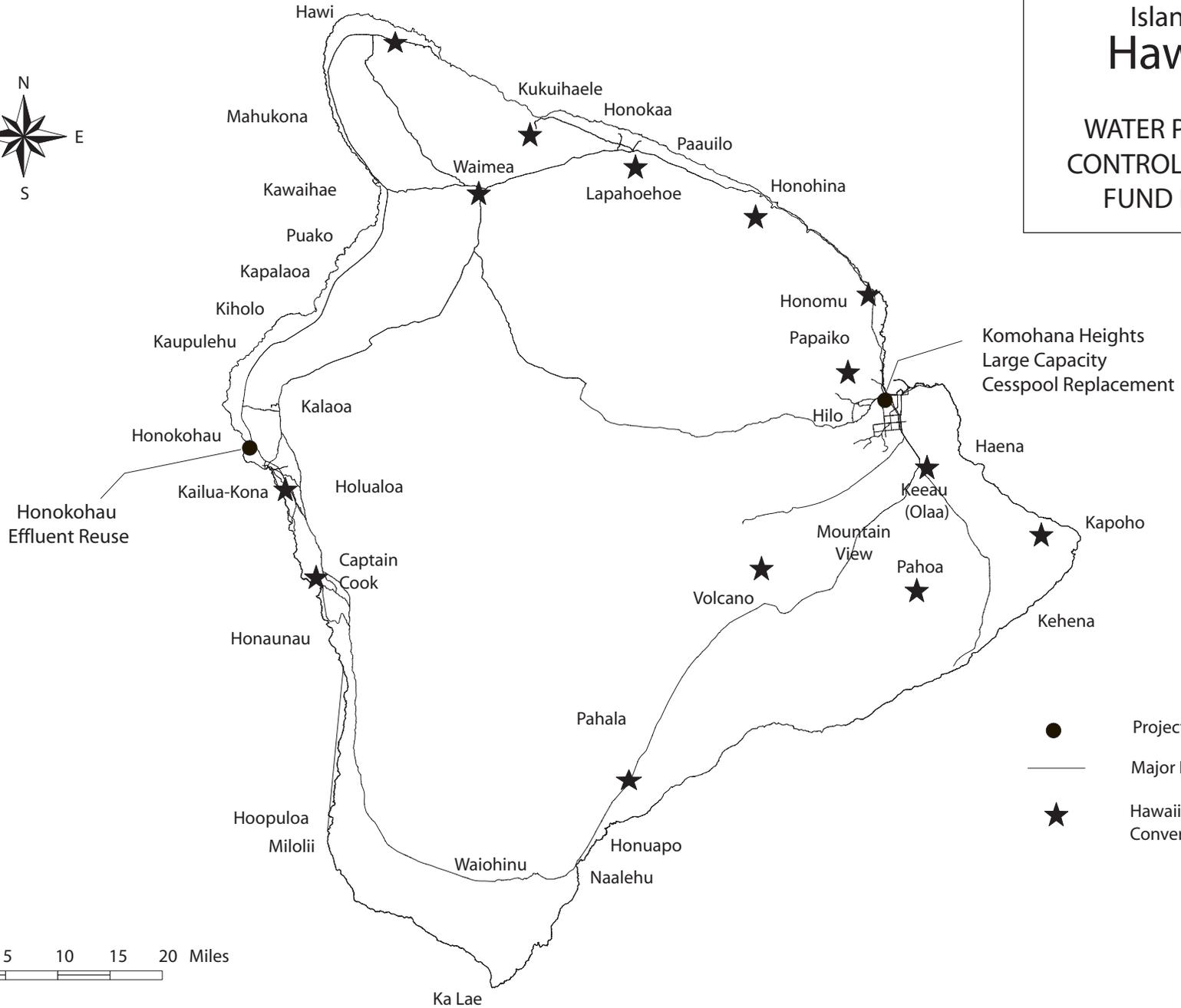
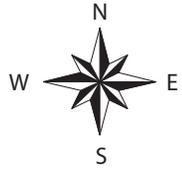
Island of
Maui

**WATER POLLUTION
CONTROL REVOLVING
FUND PROJECTS**



Island of Hawai'i

WATER POLLUTION CONTROL REVOLVING FUND PROJECTS



0 5 10 15 20 Miles

ATTACHMENT 2

WATER POLLUTION CONTROL REVOLVING FUND

PROJECTS RECEIVING SRF ASSISTANCE

WATER POLLUTION CONTROL REVOLVING FUND PROJECTS RECEIVING SRF ASSISTANCE

| No. | Final Agreement Date | Project Description (Project Name - Based on the Final Loan Agreement) | Rate | Loan Amount |
|------------|-----------------------------|--|-------------|--------------------|
| 1 | 03/01/1991 | 70-16 Kailua Sewage Treatment Plant Modification, Ph. 2 | 2.50% | 8,184,015.00 |
| 2 | 03/01/1991 | 70-18 Kaneohe Sewage Treatment Plant Modification, Ph. 2 | 2.50% | 1,061,464.00 |
| 3 | 03/01/1991 | 68-28 Miomio Wastewater Pump Station and Force Main | 2.50% | 1,303,134.00 |
| 4 | 03/01/1991 | 62-09 Hilo Wastewater Treatment & Conveyance Project, Ph II, Schedule D, G, & H | 2.50% | 12,724,311.00 |
| 5 | 04/16/1991 | 55-02 Kapaa Sewer System, Phase I | 2.50% | 2,654,640.00 |
| 6 | 04/19/1991 | 54-04 Lahaina Wastewater Reclamation Facility Expansion | 2.50% | 500,000.00 |
| 7 | 08/01/1993 | 54-05 Lahaina Wastewater Reclamation Facility Expansion | 2.57% | 7,381,497.00 |
| 8 | 08/01/1991 | 62-05 Waiakea Houselot Interceptor Sewer | 2.50% | 459,321.00 |
| 9 | 02/01/1992 | 70-19 Kailua Wastewater Treatment Plant Modifications, Phase III | 2.50% | 18,039,641.00 |
| 10 | 03/23/1992 | 62-08 Waiakea Mill Pond Sewer System | 2.50% | 1,300,000.00 |
| 11 | 04/20/1992 | 80-05 Kealahou Land Disposal | 2.50% | 1,300,071.00 |
| 12 | 03/01/1993 | 52-14 Wailuku / Kahului WWRF Additions and Modifications | 2.50% | 4,825,074.00 |
| 13 | 05/15/1993 | 80-08 Alii Drive Interceptor Sewer, Part "A" and "B" | 2.78% | 3,210,243.00 |
| 14 | 05/15/1993 | 80-09 Waiaha Bay Sewage Pump Station | 2.78% | 3,697,893.00 |
| 15 | 11/08/1993 | 59-10 Lihue STP Optimization-Expansion | 2.78% | 13,438,074.07 |
| 16 | 08/01/1993 | 70-32 Kailua Modification, Phase 3, Maintenance/Storage and Operators Buildings | 2.57% | 5,003,603.00 |
| 17 | 01/03/1994 | 53-20 Waianae Wastewater Treatment Plant, Secondary Treatment Facilities | 2.06% | 27,878,719.95 |
| 18 | 06/01/1994 | 62-04 Ainako Interceptor Sewer, Parts A & B | 2.06% | 2,239,174.01 |
| 19 | 10/01/1994 | 80-10 Alii Drive Interceptor Sewer, Part C & D | 2.06% | 3,780,000.00 |
| 20 | 12/01/1994 | 55-02-A Kapaa Sewer System, Phase I, Contract Change Order No. 9 | 2.06% | 698,790.00 |
| 21 | 10/10/1995 | 62-11 Kalaniana'ole Collector Sewers (Interim 6/15/95) | 3.02% | 1,499,944.00 |
| 22 | 01/16/1996 | 80-12 Alii Drive Interceptor Sewer, Parts E & F (Interim 6/15/95) | 3.02% | 2,112,654.21 |
| 23 | 04/15/1996 | 54-07 Lahaina Wastewater Pump Station #3 Replacement | 2.49% | 2,644,415.75 |
| 24 | 05/15/1996 | 77-06 Kihei Wastewater Reclamation Facility Expansion, Phase IIB | 2.49% | 9,018,078.31 |
| 25 | 10/01/1996 | 80-11 Holualoa Bay Sewage Pump Station (Interim 7/1/95) | 3.02% | 3,080,000.00 |
| 26 | 06/01/1997 | 68-03 Kahaluu Housing Wastewater Pump Station and Force Main (Interim 6/15/95) | 3.02% | 3,540,884.00 |
| 27 | 08/01/1997 | 77-09 Kihei Reuse Core Distribution System (Interim 10/1/96) | 2.60% | 3,231,080.46 |
| 28 | 10/01/1997 | 70-13 Kaneohe Bay South Wastewater Pump Station No. 5 and Force Main (Interim 12/15/95) | 3.02% | 2,887,402.63 |
| 29 | 02/15/1998 | 70-29 Kailua Heights Wastewater Pump Station Force Main Replacement (Interim 07/01/97) | 2.65% | 735,321.13 |
| 30 | 02/15/1998 | 70-36 Waikalua Wastewater Pump Station Force Main Replacement (Interim 07/01/97) | 2.65% | 815,587.00 |
| 31 | 02/15/1998 | 46-61 Ala Moana Emergency Generator Upgrade (Interim 10/15/97) | 2.57% | 2,970,073.00 |
| 32 | 02/15/1998 | 71-10 North Shore Septage Handling Facility (Interim 07/01/97) | 2.65% | 6,606,497.12 |
| 33 | 04/15/1998 | 54-17 Lahaina Wastewater Pump Station No. 17 Renovations (Interim 10/15/97) | 2.57% | 600,000.00 |
| 34 | 02/15/1998 | 46-64 Public Baths Force Main Replacement (Interim 10/15/97) | 2.57% | 3,403,937.52 |
| 35 | 01/15/1999 | 62-15 Waiakea Houselot Collector Sewer, Phase II (Interim 10/15/97) | 2.61% | 5,024,266.00 |
| 36 | 04/15/1999 | 60-05 Pauka'a Community Collector Sewer (Interim 10/15/98) | 2.38% | 2,143,448.00 |
| 37 | 06/15/1999 | 46-31 Nimitz Highway Reconstructed Sewer (Hotel to Auahi) (Interim 3/15/98) | 2.39% | 23,057,225.29 |
| 38 | 05/15/2000 | 54-14 Kuhua Camp Sewer System Rehabilitation (Interim 02/15/99) | 2.34% | 1,745,481.34 |
| 39 | 11/15/2000 | NPSC0-02 Ahuimanu Storm Water Dewatering Facility (Interim 10/15/00) | 2.75% | 1,118,928.83 |
| 40 | 01/15/2001 | 80-13 Pahoehoe Wastewater Pump Station (Interim 07/15/99) | 2.61% | 2,817,760.42 |
| 41 | 04/15/2001 | 54-20 Lahaina Wastewater Reclamation Facility Solids Handling (Interim 04/15/01) | 2.45% | 1,344,000.00 |
| 42 | 01/15/2002 | 46-37 Gulick Avenue Relief Sewer (Interim 02/15/99) | 2.34% | 5,812,837.16 |
| 43 | 01/15/2002 | 70-44 Kailua Heights Wastewater Pump Station Modification (Interim 02/15/99) | 2.34% | 2,714,347.37 |
| 44 | 01/15/2002 | 70-33 Kailua Wastewater Treatment Plant Disinfection Facility (Interim 02/15/99) | 2.34% | 2,516,434.22 |
| 45 | 08/15/2002 | 90-03 County Parks Wastewater Facilities Upgrade (Interim 07/15/99) | 2.49% | 68,506.00 |
| 46 | 08/15/2002 | NPSC0-01 DFM Road Division Storm Water Equipment (Interim 03/15/00) | 2.96% | 2,794,141.55 |
| 47 | 11/15/2002 | 52-16 Wailuku-Kahului Wastewater Reclamation Facility Modifications, Phase II (Interim 05/15/02) | 2.49% | 11,951,083.00 |
| 48 | 07/15/2004 | 62-18 Kalaniana'ole Highway Interceptor Sewer Rehabilitation (Interim 08/15/03) | 2.37% | 1,861,714.00 |
| 49 | 10/15/2005 | NPS59-07 Kauai County Cesspool Conversion Project (Interim 12/15/03) | 2.13% | 1,350,474.00 |
| 50 | 01/15/2006 | 46-55 Hart Street Wastewater Pump Station Alternative (Interim 02/15/02) | 0.50% | 25,470,322.33 |
| 51 | 01/15/2006 | 46-60 Ala Moana Wastewater Pump Station Modification (Interim 07/15/03) | 0.50% | 21,225,055.00 |
| 52 | 01/15/2006 | 51-64 Waipahu Wastewater Pump Station Modification (Interim 07/15/02) | 0.50% | 9,846,404.11 |
| 53 | 02/15/2006 | 52-30 Kahului Wastewater Pump Station Modification (Interim 08/15/04) | 0.50% | 2,871,957.00 |
| 54 | 02/15/2006 | 54-12 Lahaina Wastewater Pump Station Nos. 5 and 6 Forcemain Replacement (Interim 07/15/04) | 0.50% | 3,300,000.00 |
| 55 | 04/15/2006 | 59-13 Lihue Wastewater Treatment Plant Effluent Disposal System (Interim 03/15/01) | 0.50% | 3,088,028.55 |
| 56 | 9/15/2006 | NPS62-10 Hawaii County Cesspool Conversion Project (Interim 12/15/03) | 0.50% | 8,908,035.00 |
| 57 | 1/15/2007 | 47-07 Waimea Wastewater Treatment Plant Effluent Disposal System (Interim 03/15/01) | 0.50% | 2,158,817.00 |
| 58 | 5/15/2007 | 55-05 Wailua/Kapaa Sewer System Improvements (Interim 05/15/07) | 0.50% | 4,500,000.00 |
| 59 | 5/15/2007 | 54-09 Lahaina Wastewater Pump Station No. 4 Modifications (Interim 05/15/07) | 0.50% | 1,700,000.00 |
| 60 | 6/15/2007 | 46-70 Sand Island Wastewater Treatment Plant Primary Expansion Phase 1 (Interim 06/15/2007) | 0.50% | 88,199,631.00 |

TOTAL FINAL PROJECTS

400,414,437.33

WATER POLLUTION CONTROL REVOLVING FUND PROJECTS RECEIVING SRF ASSISTANCE

| Binding Commitment | | Interim Binding Commitments | | Rate | Loan Amount | |
|--|-------------|---|--|-------------|-----------------------------|----------------|
| No. | Date | Project Description (Project Name - Based on the Interim Loan Agreement) | | | | |
| 1 | 07/15/2004 | 52-19 Wailuku-Kahului Wastewater Pump Station Force Main Replacement | | 2.34% | 7,360,000.00 | |
| 2 | 04/15/2005 | 80-16 Honokohau Effluent Reuse | | 1.99% | 2,860,000.00 | |
| 3 | 04/15/2005 | 62-19 Komohana Heights Large Capacity Cesspools Replacement | | 1.99% | 1,282,600.00 | |
| TOTAL INTERIM PROJECTS | | | | | | 11,502,600.00 |
| TOTAL FINAL & INTERIM PROJECTS | | | | | | 411,917,037.33 |
| | | | | | | |
| Planned (Future) Interim Binding Commitments | | | | | | |
| Project Description ("New" Project Names - Based on Priority List) | | | | | Proposed Loan Amount | |
| 68-03 Kahaluu Housing Wastewater Pump Station and Force Main (Adjust. Only - Supplemental to Final - deob.) | | | | | (225,009.86) | |
| 80-16 Honokohau Effluent Reuse (Adjust. Only - From Interim to Final) (As of June 2007 - project may be cancelled) | | | | | - | |
| 52-19 Wailuku-Kahului Wastewater Pump Station Force Main Replacement (Adjust. Only - From Interim to Final) | | | | | 3,000,000.00 | |
| 62-19 Komohana Heights Large Capacity Cesspool Replacement (Adjust. Only - From Interim to Final) | | | | | 717,400.00 | |
| 59-15 Lihue Wastewater Treatment Plant Digester Repair | | | | | 5,644,008.00 | |
| 59-16 Marriott Wastewater Pump Station Improvements | | | | | 951,716.00 | |
| 70-45 Wanaao Road/Keolu Drive Reconstructed Sewer | | | | | 53,128,541.00 | |
| 46-68 Kuliouou Sewer Rehabilitation | | | | | 12,264,662.00 | |
| NPS52-39 Central Maui Landfill Gas Collection and Flare Construction | | | | | 4,200,000.00 | |
| NPS41-07 Construction of Molokai Landfill Cell 3 | | | | | 3,000,000.00 | |
| 52-28 Countywide Wastewater Reclamation Facility and Pump Station Renovations | | | | | 2,500,000.00 | |
| 77-18 Consent Decree Sewer Rehabilitation - Kihei | | | | | 6,000,000.00 | |
| 54-24 Consent Decree Sewer Rehabilitation - Lahaina | | | | | 2,500,000.00 | |
| 52-31 Consent Decree Sewer Rehabilitation - Central | | | | | 1,500,000.00 | |
| 80-17 North Kona Sewer and Effluent Reuse | | | | | 6,747,000.00 | |
| 54-11 Front Street Sewer Rehabilitation | | | | | 1,500,000.00 | |
| 54-06 Lahaina Wastewater Pump Station No. 1 Replacement | | | | | 7,050,000.00 | |
| 54-25 Hyatt/Kaanapali Force Main Replacements | | | | | 1,750,000.00 | |
| 52-32 Wailuku-Kahului Wastewater Reclamation Facility Electrical/Solids Upgrade | | | | | 2,000,000.00 | |
| NPS72-00 Honokaa Large Capacity Cesspool Conversion | | | | | 10,163,172.00 | |
| NPS90-04 Na'alehu Large Capacity Cesspool Conversion | | | | | 6,802,000.00 | |
| NPS90-05 Pahala Large Capacity Cesspool Conversion | | | | | 8,220,000.00 | |
| 51-53 Honouliuli Wastewater Treatment Plant New Solids Handling Facilities | | | | | 10,000,000.00 | |
| 51-53 Honouliuli Wastewater Treatment Plant New Solids Handling Facilities (Adjust. Only - Supplemental to Final - inc.) | | | | | 15,000,000.00 | |
| 51-53 Honouliuli Wastewater Treatment Plant New Solids Handling Facilities (Adjust. Only - Supplemental to Final - inc.) | | | | | 24,078,517.00 | |
| TOTAL PLANNED (FUTURE) COMMITMENTS | | | | | | 188,492,006.14 |
| TOTAL FINAL, INTERIM, & PLANNED PROJECTS | | | | | | 600,409,043.47 |

ATTACHMENT 3

STATEMENT OF NET ASSETS

State of Hawaii
Water Pollution Control Revolving Fund
STATEMENT OF NET ASSETS

| | June 30, 2007 | June 30, 2006 |
|--|--------------------------|--------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents in State Treasury (note C) | \$ 154,516,160.17 | \$ 143,710,312.90 |
| Accounts Receivable | - | 5,573.59 |
| Accrued Interest (note D) | 1,210,635.19 | 1,197,142.53 |
| Accrued Administrative Loan Fees, program (note D) | 29,295.73 | 120,683.01 |
| Accrued Administrative Loan Fees, non-program (note D) | 562,233.38 | 417,498.45 |
| Accrued interest on investments | 1,381,631.92 | 1,157,283.66 |
| Due from federal government | - | 1,516,682.20 |
| Current maturities of loans receivable (note D) | 17,246,964.15 | 13,615,505.10 |
| Total Current Assets | 174,946,920.54 | 161,740,681.44 |
| Loans Receivable, net of current maturities (note D) | 171,819,443.02 | 125,060,326.02 |
| Capital Assets | | |
| Office Equipment (notes B and F) | 54,840.98 | 45,014.06 |
| Less: Accumulated Depreciation (notes B and F) | (37,790.18) | (28,214.83) |
| Total Capital Assets | 17,050.80 | 16,799.23 |
| TOTAL ASSETS | \$ 346,783,414.36 | \$ 286,817,806.69 |
| LIABILITIES AND FUND BALANCE | | |
| Current Liabilities | | |
| Payroll Payable | \$ 41,278.77 | \$ 56,788.24 |
| Accounts Payable | 12,678.57 | 10,436.64 |
| Accrued Vacation, current portion (note B) | 21,725.40 | - |
| Total Current Liabilities | 75,682.74 | 67,224.88 |
| Accrued Vacation, net of current portion (note B) | 195,258.49 | - |
| Net Assets | | |
| Invested in Capital Assets | 17,050.80 | 16,799.23 |
| Restricted | 346,495,422.33 | 286,733,782.58 |
| Unrestricted | - | - |
| Total Net assets | 346,512,473.13 | 286,750,581.81 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 346,783,414.36 | \$ 286,817,806.69 |

The accompanying notes are an integral part of this statement.

ATTACHMENT 4

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

State of Hawaii
Water Pollution Control Revolving Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

| | Year Ended | |
|---|-------------------|-------------------|
| | June 30, 2007 | June 30, 2006 |
| REVENUES | | |
| Interest earnings from loans (note B) | \$ 3,443,195.06 | \$ 3,493,937.73 |
| Administration loan fee earnings, program (note B) | 205,944.00 | 481,267.62 |
| Administration loan fee earnings, non-program (note B) | 1,371,115.83 | 1,000,485.82 |
| Total Revenues | 5,020,254.89 | 4,975,691.17 |
| EXPENSES | | |
| Administrative expenses for SRF activities | 223,323.14 | 435,410.26 |
| Administrative expenses for State activities, program | 346,429.44 | 35,328.01 |
| Administrative expenses for State activities, non-program | 1,010,817.60 | 797,807.95 |
| Total Expenses | 1,580,570.18 | 1,268,546.22 |
| OPERATING INCOME | 3,439,684.71 | 3,707,144.95 |
| NON-OPERATING REVENUE | | |
| Federal contribution | 47,792,849.12 | 1,862,739.65 |
| State matching contribution | 2,053,000.00 | 2,053,000.00 |
| Interest earnings from investment (note B) | 6,476,357.49 | 4,997,487.48 |
| Inter government transfer | - | 3,480.06 |
| Total Non-operating Revenues | 56,322,206.61 | 8,916,707.19 |
| CHANGE IN NET ASSETS | 59,761,891.32 | 12,623,852.14 |
| Net assets - beginning of year | 286,750,581.81 | 274,126,729.67 |
| Net assets - end of year | \$ 346,512,473.13 | \$ 286,750,581.81 |

The accompanying notes are an integral part of this statement.

ATTACHMENT 5

STATEMENT OF CASH FLOWS

State of Hawaii
Water Pollution Control Revolving Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

| | |
|---|----------------------------------|
| Cash flows from operating activities: | |
| Interest income from loans | \$ 3,429,702.40 |
| Administrative Loan Fees | 1,523,712.18 |
| Principal repayments on loans | 13,119,251.61 |
| Disbursement of loan proceeds | (63,509,827.66) |
| Personnel costs | (1,218,817.35) |
| Payments to vendors | <u>(142,887.54)</u> |
| Net cash flows used in operating activities | (46,798,866.36) |
| Cash flows from noncapital financing activities: | <u>51,362,531.32</u> |
| Net cash flows provided by noncapital financing activities | 51,362,531.32 |
| Cash flows from capital and related financing activities: | |
| Purchase of equipment | <u>(9,826.92)</u> |
| Net cash flows provided by capital and related financing activities | (9,826.92) |
| Cash flows from investing activities: | |
| Interest from investments | <u>6,252,009.23</u> |
| Net cash flows provided by investing activities | 6,252,009.23 |
| NET INCREASE IN CASH | 10,805,847.27 |
| Cash Balance at July 1, 2006 | <u>143,710,312.90</u> |
| Cash Balance at June 30, 2007 | <u><u>\$ 154,516,160.17</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 3,439,684.71 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 9,575.35 |
| Changes in assets and liabilities: | |
| Decrease in accounts receivable | 5,573.59 |
| Increase in interest receivable on loans | (13,492.66) |
| Increase in administrative fee receivable on loans | (53,347.65) |
| Increase in accrued salaries and other administrative costs | 203,716.35 |
| Increase in loans receivable | <u>(50,390,576.05)</u> |
| Net cash provided by operating activities | <u><u>\$ (46,798,866.36)</u></u> |

The accompanying notes are an integral part of this statement.

ATTACHMENT 6

NOTES TO FINANCIAL STATEMENTS

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - ESTABLISHMENT AND PURPOSE OF THE WPCRF

In accordance with the Clean Water Act of 1987 (the Act), the U.S. Environmental Protection Agency's (EPA) direct grants for the construction of wastewater treatment works ended in 1990. The Act provides for the creation of a State Revolving Fund (SRF) loan program to be capitalized in part by federal funds. The Act authorizes states to make loans for construction of publicly owned wastewater treatment works, for implementation of a non-point source pollution control management program and for implementation of an estuary conservation and management program. The SRF serves as the major federal funding source for future wastewater construction projects. Under the Act, the State of Hawaii (State) received more than \$72 million of SRF capitalization grants. The Act expired on September 30, 1995, however the State has continued to receive SRF capitalization grants annually from the U.S. EPA and to date, has received over \$195 million.

The 1988 State Legislature established a State Water Pollution Control Revolving Fund (WPCRF) program to initiate the federal loan program.

The purpose of the WPCRF is to provide loans in perpetuity to county, state, and private agencies for the construction of wastewater treatment facilities and for non-point source projects. Such loans may be at or below market interest rates and be fully amortized for a period not to exceed 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.

Although some funds were used to provide grants, the State stopped awarding grants in March 1991. In 1996, Act 81 was enacted which deleted the Director's authority to provide grants from the WPCRF. Currently, the WPCRF is a loan program.

State of Hawaii

Water Pollution Control Revolving 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 Department of Health, State of Hawaii that is attributable to the transactions of the WPCRF.

The accompanying financial statements of the WPCRF 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 in the United States of America. It requires new information and restructuring of much of the information that governments have presented in the past. The Department implemented these standards in June 2002.

Other GASB Statements are required to be implemented in conjunction with Statement 34. Therefore, the Department has implemented the following GASB Statements: 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.

2. Measurement Focus and Basis of Accounting

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

Proprietary funds 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

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE B - ACCOUNTING POLICIES (continued)

after November 30, 1989, unless FASB conflicts with GASB. The WPCRF has elected to not apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the WPCRF 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 include property and 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 years.

4. Administration Costs

The accompanying financial statements do not reflect certain administration costs incurred

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE B - ACCOUNTING POLICIES (continued)

4. Administration Costs (continued)

which are paid for by other sources of funding from DOH. These costs include the DOH and State's overhead which the DOH does not assess to the SRF.

5. Fund Accounts

The WPCRF consists of the State Revolving Fund (SRF) and State Activity. The SRF consists of the state match, federal capitalization grant loans, federal set aside funds, principal loan repayments, and interest from loans and investments.

The State Activity consists of administration loan fees and State loan 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 \$612,700.00.

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE C - CASH AND CASH EQUIVALENTS

All monies of the WPCRF 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 can be categorized to give an indication of the level of risk assumed by the WPCRF. 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 WPCRF'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 WPCRF's name.

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

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE D - LOANS RECEIVABLE

At June 30, 2007, the WPCRF had loans receivable from the following government entities:

| | <u>SRF Activity</u> | <u>State Activity</u> |
|---|---------------------|-----------------------|
| Twenty-three loans with the City & County of Honolulu; due in annual or 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 date. | \$ 112,410,820.50 | \$ 5,366,212.41 |
| Seventeen loans with the County of Hawaii; due in annual or 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 date. | \$ 25,334,992.97 | \$ 4,911,758.31 |

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE D - LOANS RECEIVABLE (continued)

| | <u>SRF Activity</u> | <u>State Activity</u> |
|---|------------------------|------------------------|
| Thirteen loans with the County of Maui; due in annual or 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 date. | \$ 25,861,954.26 | \$ 4,958,087.01 |
| Seven loans with the County of Kauai; due in annual, semiannual or quarterly 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 date. | \$ <u>3,247,468.60</u> | \$ <u>6,975,113.11</u> |
| Total | \$166,855,236.33 | \$22,211,170.84 |

State of Hawaii

Water Pollution Control Revolving 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 | \$ 17,246,964.15 |
| SFY2009 | 15,706,464.26 |
| SFY2010 | 16,030,366.29 |
| SFY2011 | 16,363,694.46 |
| SFY2012 | 16,678,538.93 |
| Thereafter | <u>107,040,379.08</u> |
| | \$189,066,407.17 |

As of June 30, 2007, accrued interest receivable, accrued administration loan fee receivable as program income, and accrued administration loan fee receivable as non-program income on loans totaled \$1,210,635.19, \$29,295.73, and \$562,233.38, 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 WPCRF has committed to make additional loans to the following government entities:

| | |
|---------------------------|---------------------|
| City & County of Honolulu | \$ - |
| County of Hawaii | 4,142,600.00 |
| County of Kauai | - |
| County of Maui | <u>7,360,000.00</u> |
| Total | \$ 11,502,600.00 |

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE E - FEDERAL FUNDING AND STATE MATCH

The WPCRF is capitalized by grants from EPA authorized by Title VI of the Clean Water Act with matching funds from the State. As of June 30, 2007, EPA has awarded \$195,144,248.00 to the State, of which \$177,991,385.86 has been drawn for loans and program administration expenses. The State has also legislated matching funds of \$39,028,850.67, of which \$38,038,706.67 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</u> | <u>Funds Available</u> |
|----------------------|------------|------------------|-----------------------------|-----------------------|----------------------------|
| 09/29/89 - 09/30/96 | 89 | \$ 7,568,001.00 | \$ 7,568,001.00 | | \$ - |
| 09/26/90 - 09/30/97 | 90 | 7,532,600.00 | 7,532,600.00 | | - |
| 10/01/91 - 09/30/98 | 91 | 15,894,300.00 | 15,894,300.00 | | - |
| 10/01/92 - 09/30/07 | 92 | 15,048,400.00 | 15,048,400.00 | | - |
| 10/01/93 - 09/30/03 | 93 | 16,947,877.00 | 16,947,877.00 | | - |
| 09/19/94 - 09/30/07 | 94 | 9,769,484.00 | 9,769,484.00 | | - |
| 04/05/95 - 09/30/02 | 95 | 11,110,859.00 | 11,110,859.00 | | - |
| 01/26/96 - 09/30/07 | 96 | 11,316,361.00 | 11,316,361.00 | | - |
| 09/01/97 - 09/30/07 | 97 | 11,044,606.00 | 11,044,606.00 | | - |
| 09/23/98 - 09/30/08 | 98 | 10,662,341.00 | 10,662,341.00 | | - |
| 09/08/99 - 09/30/07 | 99 | 11,550,624.00 | 11,550,624.00 | | - |
| 05/21/01 - 09/30/07 | 00 | 10,407,600.00 | 10,407,600.00 | | - |
| 03/08/02 - 09/30/08 | 01 | 10,363,068.00 | 10,363,068.00 | | - |
| 10/01/03 - 09/30/09 | 02 | 10,325,106.00 | 7,825,106.00 | | 2,500,000.00 |
| 04/15/04 - 09/30/10 | 03 | 10,257,984.00 | 9,211,489.86 | | 1,046,494.14 |
| 10/01/05 - 09/30/11 | 04 | 10,264,221.00 | 9,221,295.47 | | 1,042,925.53 |
| 09/01/06 - 06/30/15 | 05 | 8,330,100.00 | 2,517,373.53 | 2,500.00 ¹ | 5,810,226.47 |
| 07/15/07 - 06/30/17 | 06 | 6,750,716.00 | - | | 6,750,716.00 |
| TOTALS | | \$195,144,248.00 | \$177,991,385.86 | \$ 2,500.00 | \$17,150,362.14 |

¹ \$2,500 for the EPA County workshop was deducted from the Admin fund 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

Water Pollution Control Revolving 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 WPCRF. 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.

State Match Information:

| Federal Fiscal Year | Source of State Funds | 20% State Match Amount |
|------------------------|---|------------------------------|
| 89 | Act 161/89 | \$ 1,513,600.00 |
| 90 | Act 161/89 | 1,506,520.00 |
| 91 | Act 161/89 | 3,178,860.00 |
| 92 | Act 296/91 | 3,009,680.00 |
| 93 | Act 289/93 | 3,389,575.00 |
| 94 | Act 161/89; transferred from 397 activity | 1,953,897.00 |
| 95 | Act 218/95 | 2,222,172.00 |
| 96 | Act 161/89 | \$ 31,495.19 |
| | Act 161/89; transferred from 397 activity | 1,695,362.48 |
| | Act 218/95 | 224,828.00 |
| | Act 328/97 | <u>311,586.33</u> |
| | Total 96 Match | 2,263,272.00 |
| 97 | Act 328/97 | 2,208,921.00 |
| 98 | Act 116/98 | 2,132,468.67 |
| 99 | Act 091/99 | 2,310,125.00 |
| 00 | Act 281/00 | 2,081,520.00 |
| 01 | Act 259/01 | 2,072,614.00 |
| 02 | Act 177/02 | 2,065,021.00 |
| 03 | Act 200/03 | 2,051,597.00 |
| 04 | Act 041/04 | 2,052,844.00 |
| 05 | Act 178/05 | 1,666,020.00 |
| 06 | Act 160/06 | <u>1,350,144.00</u> |
| | Total 20% State Match | \$39,028,850.67 |

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

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 | \$45,014.06 | \$9,826.92 | \$ - | \$54,840.98 |
| Accumulated Depreciation | 28,214.83 | 9,575.35 | - | 37,790.18 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | \$16,799.23 | \$ 251.57 | \$ - | \$17,050.80 |