

**REPORT TO THE TWENTY-FIFTH LEGISLATURE
STATE OF HAWAII
2009**

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 2008**

TABLE OF CONTENTS

	<u>Page No.</u>
OPERATIONS & ADMINISTRATION SECTION	
A. Introduction	1
B. Executive Summary	1
C. Major Initiatives	3
D. Goals and Accomplishments	7
E. Compliance Matters	12
FINANCIAL SECTION	
A. Internal Controls	14
B. Accomplishments of the Program	14
C. Program Activities	17
D. Credit Risks of the WPCRF Loans	19
E. Other Information	21
LIST OF ATTACHMENTS:	
ATTACHMENT 1:	Water Pollution Control Revolving Fund Projects Receiving SRF Assistance
ATTACHMENT 2:	Statement of Net Assets
ATTACHMENT 3:	Statement of Revenues, Expenses & Changes in Net Assets
ATTACHMENT 4:	Statement of Cash Flows
ATTACHMENT 5:	Notes to Financial Statements

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, 2007 to June 30, 2008 and describes the activities of the Water Pollution Control Revolving Fund (WPCRF). It also discusses how the program has met its goals and objectives as identified in the Intended Use Plan (IUP) and Capitalization Grant Application, and covers the sources and uses of the funds during SFY 2008.

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 19th 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 2008

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

- Executed four (4) final loan agreements with a total project value of \$76.3 million;
- Executed thirteen (13) interim loan agreements with a total estimated project value of \$112.6 million;
- Executed two (2) supplemental loan agreements with a total estimated project value of \$12.3 million;
- Continued to work on five (5) interim loan agreements with a total estimated value of \$23.2 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 75 interim and final loans with an estimated value of \$523.1 million;
- Applied for the FFY 2008 capitalization grant funds from EPA; and
- Requested and received the State's 20% match of approximately \$0.995 million from the Legislature.
- Made 99% of its funds available for assistance. The federal grant target for FFY 2008 was 92%.

Major Changes Made During SFY 2008

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

- During SFY 2008, 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, executed major interim and final loan agreements with total project value of \$65 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.

Future Outlook and Activities to be Addressed in SFY 2009

The following major activities will be conducted in SFY 2009:

- Continuing to service existing loans;
- Receiving the FFY 2008 Federal Capitalization (CAP) Grant from EPA;
- Submitting a request to the 2009 Legislature for the State's 20% match to EPA's CAP Grant;
- Working with all counties to ensure that the model loan agreement languages are updated and acceptable;
- Continuing to execute new interim and final loan agreements;
- Overseeing construction activities for ongoing loans as well as new projects to be initiated in fiscal year 2009; and
- Finally, the program will closely monitor its cash flow to ensure that all commitments are fulfilled.

C. MAJOR INITIATIVES

I. An overview of the WPCRF program for SFY 2008:

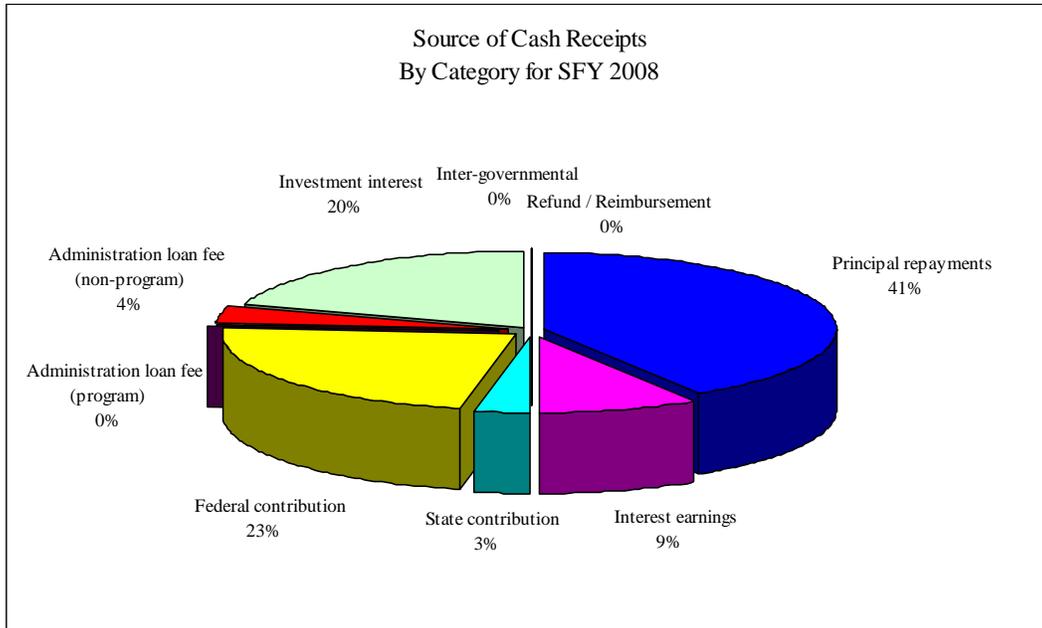
- a. Funds withdrawn from the federal Automated Standard Application for Payments (ASAP) system: \$ 8,834,588.66
- b. State match funds for the FFY 2007 Federal Capitalization Grant provided by the 2007 Hawaii State Legislature pursuant to Act 213: \$ 995,000.00
- c. State match funds distributed: \$ 1,903,529.02
- d. Agreements executed:
 - Four Final Loan Agreements: \$ 76,276,705.00
 - Thirteen Interim Loan Agreements: 112,555,091.00
 - Two Supplemental Loan Agreements: 12,305,213.41
 - Total Agreements Executed: \$201,137,009.41
- e. Principal repayments received: \$ 15,463,271.14
- f. Interest repayments received: \$ 3,386,359.30

2. The award of a low-interest WPCRF loan 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.

Graph I below shows the percentage breakdown of sources of cash by category received for the SFY 2008.

Graph I.



a. The following Interim Loan Agreements were processed and signed in SFY 2008:

<u>County</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Maui	Molokai Integrated Solid Waste Facility Phase 3 Disposal Cell and Drainage Improvements (Executed 1/15/08)	Senate District 6 House District 13	\$ 3,300,000.00
Maui	Central Maui Landfill Gas Collection and Flare Construction (Executed 8/15/07)	Senate District 6 House District 12	\$ 4,200,000.00
Hawaii	Honokaa Large Capacity Cesspool Conversion (Executed 8/15/07)	Senate District 1 House District 1	\$ 10,163,172.00

Honolulu	Kuliouou Sewer Rehabilitation (Executed 7/15/07)	Senate District 8 House District 18	\$ 12,264,662.00
Maui	Countywide Pump Station Renovations (Executed 11/15/07)	Senate District 4 House District 9	\$ 2,500,000.00
Maui	Islandwide EPA Consent Decree Sewer Rehabilitation (Executed 11/15/07)	Senate District 5, 6 House District 10 thru 12	\$ 7,000,000.00
Maui	Wailuku-Kahului Wastewater Reclamation Facility Electrical and Solids Modifications (Executed 11/15/07)	Senate District 4 House District 9	\$ 2,000,000.00
Maui	Lahaina Wastewater Pump Station No. 1 Modifications (Executed 11/15/07)	Senate District 5 House District 10	\$ 7,050,000.00
Maui	Front Street Sewer Line Rehabilitation (Executed 3/15/08)	Senate District 5 House District 10	\$ 1,500,000.00
Maui	Hyatt/Kaanapali Force Main Replacements (Executed 3/15/08)	Senate District 5 House District 10	\$ 1,750,000.00
Kauai	Marriott Wastewater Pump Station Improvements (Executed 11/15/07)	Senate District 7 House District 15	\$ 951,716.00
Honolulu	Wanao Road/Keolu Drive Reconstructed Sewer (Executed 8/15/07)	Senate District 24, 25 House District 49, 51	\$ 53,128,541.00
Hawaii	North Kona Sewer and Effluent Reuse (Executed 7/15/07)	Senate District 3 House District 6	\$ 6,747,000.00
TOTAL INTERIM LOAN AGREEMENTS			\$ 112,555,091.00

b. The following Final Loan Agreements were processed and signed in SFY 2008:

<u>County</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Honolulu	Kuliouou Sewer Rehabilitation (Executed 7/15/07)	Senate District 8 House District 18	\$ 12,264,662.00
Maui	Wailuku-Kahului Wastewater Pump Station Forcemain Replacement (Executed 4/15/08)	Senate District 4 House District 9	\$ 9,931,786.00
Kauai	Marriott Wastewater Pump Station Improvements (Executed 11/15/07)	Senate District 7 House District 15	\$ 951,716.00
Honolulu	Wanaao Road/Keolu Drive Reconstructed Sewer (Executed 8/15/07)	Senate District 24, 25 House District 49, 51	\$ 53,128,541.00
TOTAL FINAL LOAN AGREEMENTS			\$ 76,276,705.00

c. The following Supplemental Loan Agreements were processed and signed in SFY 2008:

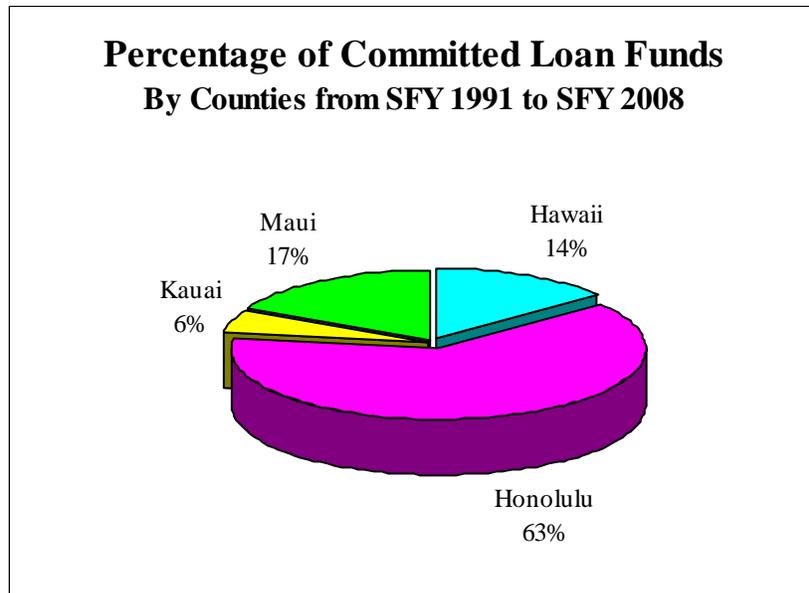
<u>County</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Honolulu	Waipahu Wastewater Pump Station Modification (Executed 2/15/08)	Senate District 20 House District 41	\$ 8,989,339.27
Honolulu	Kahaluu Housing Wastewater Pump Station and Force Main (Executed 2/15/08)	Senate District 23 House District 47	\$ 3,315,874.14
TOTAL SUPPLEMENTAL LOAN AGREEMENTS			\$ 12,305,213.41

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>
Hawaii	Komohana Heights Large Capacity Cesspools Replacement (Executed 4/15/05)	Senate District I House District I	\$ 1,282,600.00
TOTAL LOAN AGREEMENTS IN PROCESS			\$ 1,282,600.00

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

Graph 2.



D. GOALS AND ACCOMPLISHMENTS

The WPCRF program goals are contained in the state's Intended Use Plan (IUP) which is prepared annually and made available for public comment and review. In May 2007, Hawaii issued its IUP for State Fiscal Year (SFY) 2008 and included the IUP in its application for an SRF capitalization grant as required by EPA.

The following describes the program goals set forth in the SFY 2008 IUP and the accomplishments made in achieving these goals.

Long-Term Goals:

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

Although priority is normally given to projects intended to achieve compliance with federal and state water quality standards including projects to sewer existing communities and fully utilize existing wastewater treatment facilities, no such projects were proposed or funded during SFY 2008. Instead, most projects focused on sewer rehabilitation and replacement.

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

Four projects, funded by the SRF, protected Hawaii's public health and environment from point sources of water pollution were finalized in SFY 2008. These projects, located on three different islands in the state of Hawaii, included the following:

- **Kuliouou Sewer Rehabilitation** involving reconstruction of deteriorated sewer mains and manholes on the island of Oahu.



-
- **Wanaao Road/Keolu Drive Reconstructed Sewer** involving replacement of deteriorated sewer lines in an area complicated by the presence of Kawainui Stream and a high water table level on the island of Oahu.



- **Marriot Wastewater Pump Station** involving replacement of two 1,100 gpm pumps and upgrading of a SCADA system to monitor station operations on the island of Kauai.



- **Wailuku-Kahului Forcemain** involving replacement of existing force main lines spanning from the Wailuku Wastewater Pump Station to the Wailuku-Kahului Wastewater Reclamation Facility on the island of Maui.



Although no loans for projects controlling non-point water pollution sources were finalized in SFY 2008, two loans for these types of projects are expected to be finalized within the first three months of SFY 2009. A project on the island of Maui involves construction of a landfill gas collection and flare system to prevent migration of landfill gas to ground and nearby surface water (see photos on page 10), while a project on the island of Molokai involves the necessary expansion of an existing landfill, providing for a leachate collection and removal system as well as a drainage channel that will carry landfill runoff to an existing sedimentation basin, minimizing the impact to ground and nearby surface water.

- **Central Maui Landfill Project:** Gas collection lines and flare.



-
-
3. The WPCRF Program will assist WPCRF Loan Applicants in conserving and safely recycling wastewater effluent.

A WPCRF loan for the *Wailuku-Kahului Forcemain* project was finalized in SFY 2008. Deteriorated sewer lines between the Wailuku-Kahului Wastewater Reclamation Facility and a nearby pump station are being replaced which will contribute to the safe recycling of wastewater effluent.

4. The WPCRF Program will establish and support other financial programs and incentives by funding nonpoint 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, now or 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 look for ways to streamline its loan application process to make it easier for all WPCRF Loan Applicants. Current procedures are reviewed on a regular basis.

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

The program offers below market interest rates while still maintaining fiscal stability and long-term security. In these difficult economic times, the WPCRF has temporarily lowered its interest rate to 0.5%.

In order to maximize available loan funds and the potential for repayments which help sustain the program, capitalization grants and state matching funds are pursued annually. In SFY 2008, the WPCRF program was fortunate in receiving an EPA capitalization grant and associated state matching funds from the Hawaii State Legislature.

Since Hawaii's four loan applicants are in fact county governmental agencies, repayments have been timely and reliable, helping to ensure the fund's perpetuity. Loan fees currently provide adequate revenue to administer the program, and program and non-program costs are strictly monitored to ensure the success, fiscal soundness, and perpetuity of the WPCRF program.

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.

Priority was given to projects intended to achieve compliance with federal and state water quality standards including projects to sewer existing communities and fully utilize existing wastewater treatment facilities.

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

Four loans for projects which protect Hawaii's public health and environment from point sources of water pollution were finalized in SFY 2008. These projects were located on three different islands in the state of Hawaii (see photos on pages 8 and 9).

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.

Although no loans for projects controlling non-point water pollution sources were finalized in SFY 2008, two loans for these type of projects are expected to be finalized within the first three months of SFY 2009. A project on the island of Maui involves construction of a landfill gas collection and flare system to prevent migration of landfill gas to ground and nearby surface water, while a project on the island of Molokai involves the necessary expansion of an existing landfill, providing for a leachate collection and removal system as well as a drainage channel that will carry landfill runoff to an existing sedimentation basin, minimizing the impact to ground and nearby surface water (see photos on page 10).

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

A WPCRF loan for the *Wailuku-Kahului Forcemain* project was finalized in SFY 2008. Deteriorated sewer lines between the Wailuku-Kahului Wastewater Reclamation Facility and a nearby pump station are being replaced which will contribute to the safe recycling of wastewater effluent.

5. To 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 loan rates below market interest rates while still maintaining fiscal stability and long-term security. With a current interest rate of 0.5%, a high demand for loans exists.

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.

In order to maximize available loan funds and the potential for repayments which help sustain the program, capitalization grants and state matching funds are pursued annually. In SFY 2008, the WPCRF program was fortunate in receiving an EPA capitalization grant and associated state matching funds from the Hawaii State Legislature.

Environmental Benefits of Projects

A “one-pager” describing the environmental benefits was completed for each project entering into a binding commitment with the WPCRF program during SFY 2008 in order to satisfy requirements of EPA Order 5700.7. Copies of the “one-pager” worksheets describing a project’s environment benefits are provided in Attachment 20.

E. COMPLIANCE MATTERS

Hawaii’s WPCRF Program has complied with applicable requirements in the *State WPCRF*

Operating Agreement between the State of Hawaii Department of Health and EPA, Chapter II, Section C, Assurances and Certifications. The following describes actions taken to satisfy applicable requirements.

1. **Environmental Review:** The WPCRF Program oversaw the environmental review process to ensure that funded projects were in compliance with applicable federal and state requirements. Loan applicants were required to prepare environmental assessment documents in accordance with Hawaii Revised Statutes, Chapter 343, and Hawaii Administrative Rules, Chapter 11-200 which provide for environmental impact statements. The environmental assessment documents were then submitted to the State of Hawaii Office of Environmental Quality Control for review and publication. Each loan applicant was required to certify that it had conducted a current assessment of the environmental impacts of its proposed project, disclosed all known significant environmental impacts, and incorporated and complied with all federal “cross-cutter” requirements.
2. **Intended Use Plan:** The IUP for SFY 2008 was made available for public review and comment, published in May 2007, and included with Hawaii’s application for an SRF capitalization grant as required by EPA.
3. **Other Federal “Cross-Cutter” Requirements:** Each loan applicant was required to certify that each proposed project incorporated and complied with all federal “cross-cutter” requirements.

FINANCIAL SECTION

The following is a summary of the financial activities of the program for state fiscal year ended June 30, 2008. 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 \$203,417,248¹ in federal capitalization grants. Of this amount, \$6,016,644.73 has been set aside to administer the loan program and the remaining \$197,400,603.27 is being used for WPCRF loan funds.

2. State Match:

Pursuant to Act 213, the 2007 Hawaii State Legislature appropriated \$995,000.00 in general obligation bond funds for the required state match to the FFY 2007 EPA SRF Capitalization Grant. The state match was transferred to the WPCRF's account in February 2008 (Refer to Attachment 5, Note E, Table 5).

¹ As of June 30, 2008, the WPCRF program has not received its capitalization grant for FFY 2008, totaling \$5,223,500 (Refer to Attachment 5, Note E, Table 4).

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

3. Executed Loan Agreements/Binding Commitments:

As of June 30, 2008, the DOH committed \$197,400,603.27 of federal capitalization grant funds and \$40,683,450.67 of state match funds to WPCRF projects, a 6.7% and 7.0% increase from 2007 to 2008, 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 has bound \$478,311,011.61 or 106.7% of all federal funds available since inception of the program. The program also has another \$23,155,433 in pending commitments which, when executed, will bring the total binding commitment percentage to 111.9%.

4. Assistance as a Percentage of Funds Available:

The WPCRF's percentages for Assistance as a Percentage of Funds Available, based on the National Information Management System (NIMS), for 2003, 2004, 2005, 2006, 2007 and 2008 were: 65%, 57%, 54%, 68%, 88%, and 99%, respectively. This percentage measures how much of the total funds available, the program has loaned to its customers.

The program's goal for 2008 was set at 92%; and for 2009, the goal is 94%.

5. Disbursements as a Percentage of Assistance

The WPCRF's percentages for Disbursements as a Percentage of Assistance, based on NIMS, for 2003, 2004, 2005, 2006, 2007, and 2008 were: 96%, 99%, 99%, 74%, 70%, and 63%, respectively. This percentage measures how much of the total funds available, the program has disbursed to its customers.

6. Automated Standard Application for Payments (ASAP):

The program drew \$8,834,588.66 of EPA Capitalization Grant funds from the ASAP payment system during the SFY 2008. The entire amount was disbursed to fund WPCRF loans.

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 2008, DOH received \$13,159,450.93 (402) from principal from repayments of federal loans, \$2,977,823.89 (403) from interest from repayments of federal loans, \$2,303,820.21 (406) principal from repayments from state loans, \$408,535.41 (407) from interest from repayments of state loans, and \$7,510,800.55 from investment interest.

For SFY 2009, the program is projected to receive principal and interest repayments and investment interest of \$16,796,926.80, \$3,120,224.76, and \$4,698,282.23, 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 DOH and EPA has 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 2008, Table I shows the dollar amount of contracts the WPCRF loan recipients have awarded to MBE's and WBE's and the amount of services the program procured from MBE/WBE's:

Table I.

	Total Procurement Amount	Amount Awarded to MBE	Percentage of MBE Utilization	Amount Awarded to WBE	Percentage of WBE Utilization
Services	\$ 126,862.25	\$ 5,133.33	4.0%	\$ 2,599.12	2.0%
Construction	\$ 18,316,011.08	\$ 215,000.00	1.2%	\$ -	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.

Effective May 27, 2008, the EPA revised the MBE/WBE program. It is now known as the Disadvantaged Business Enterprises (DBE) program.

DBE was implemented to address the United States Supreme Court's decision in the case of Adarand Constructors, Inc. v. Peña, 515 U.S. 200 (1995). In this case, the court extended strict judicial scrutiny to federal programs that use racial discrimination or ethnic criteria as a basis for decision making. Thus, DBE was developed and implemented agency-wide by EPA to ensure nondiscrimination when awarding contracts and also to remedy past and current racial discrimination. It was promulgated with the understanding that the statutory provisions authorizing its adoption were enacted for remedial purposes. The EPA will evaluate the propriety of the DBE program after seven years, in 2015.

C. PROGRAM ACTIVITIES

The highlights of the program activities are as follows:

Program Activities:

1. The program completed a priority list, developed the SFY 2009 Intended Use Plan, and prepared the capitalization grant application.
2. The program serviced seventy-five (75) interim and final WPCRF loan agreements totaling \$523.1 million.

3. The program reviewed planning documents (including the preliminary engineering reports, plans and specifications, environmental assessment documents, and federal requirement documents) for ten (10) projects.
4. The program executed thirteen (13) interims, four (4) finals, and two (2) supplemental loan agreement for \$112,555,091, \$76,276,705 and \$12,305,213.41, respectively.
5. The program conducted twenty-seven (27) 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 2008, the WPCRF collected \$77,292.56 in administration loan fee - program income and \$1,504,784.57 in administration loan fee - non-program income.

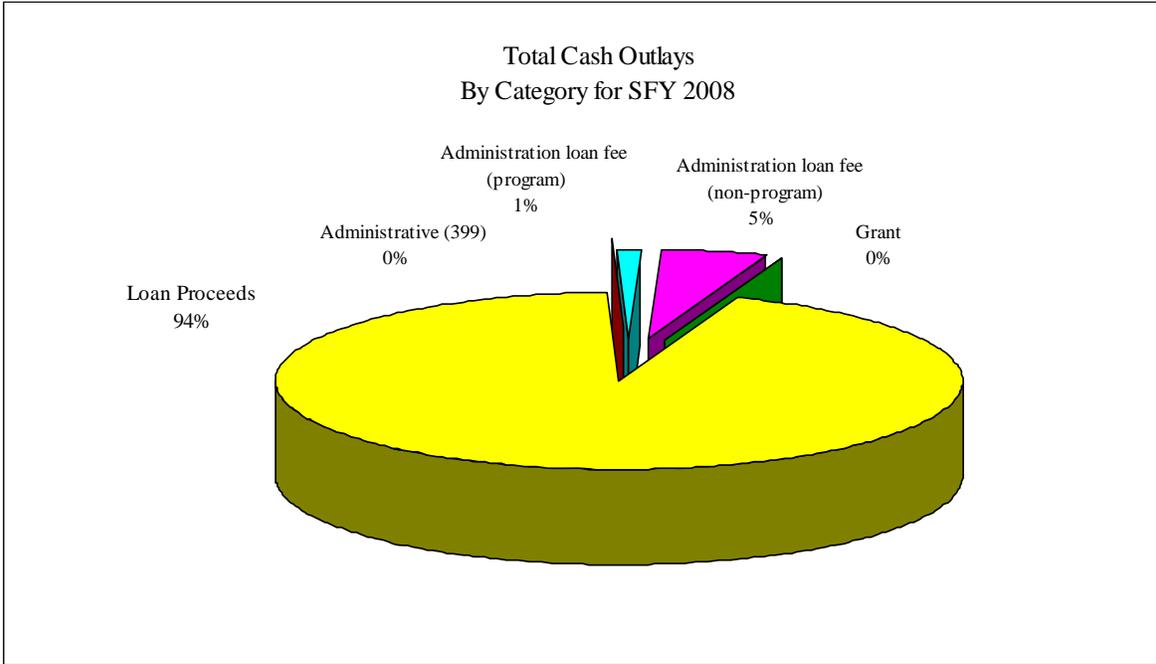
In addition, the program can use up to four percent (4%) of each year's federal capitalization grant to pay for administrative costs. Administrative costs are prorated based on the program activities and man-hours spent in each activity. The cost to administer the WPCRF program and its wastewater related activities for SFY 2008 was \$1,445,074.23. Of this amount, \$227,476.49 was paid by administration loan fee - program income and \$1,217,597.74 was paid by administration loan fee - non-program income.

Loan Disbursement

The WPCRF program disbursed \$24,378,676.40 in loan funds in SFY 2008. Of this amount, \$8,834,588.66 was drawn from federal funds and resulted in the closure of one capitalization grant (FFY 2002).

Graph 3 below 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 38 operational and maintenance inspections of various public and private wastewater treatment facilities throughout the State. In addition, the program funded efforts in recycled water use, beneficial use of wastewater sludge, animal waste management practices, and wastewater investigation and enforcement activities.

D. CREDIT RISKS OF THE WPCRF LOANS

The SRF program lacks the necessary resources to conduct a comprehensive wastewater service and operational analysis. To compensate for this shortfall, the program uses the credit ratings of bond companies like Moody's and Fitch as a guideline.

In general, the credit rating companies provides an opinion on the relative ability of an entity to meet its financial commitments, such as principal and interest repayments,

dividend payments, and other obligations. These ratings are used as indicators of the likelihood of being repaid in accordance with the terms and conditions on which it was invested.

The credit rating scale was developed and first introduced in 1924 by Fitch Ratings. They rate a company using various criteria (e.g., the economy, the company's debt structure, financial condition, demographics, and the company's management practices). After analyzing these variables, they rated the company using a scale from 'AAA' to 'D.' Similar scales were later adopted by other credit rating companies.

Typically the definitions of the ratings are as follows:

AAA	Judged to be of the "Best Quality" with minimal credit risk and carry the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.
AA+, AA, AA-	Judged to be of "High Quality" by all standards and are subject to very low credit risk. Together they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in AAA securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in AAA securities.
A+, A, A-	Considered to be "Upper-Medium Grade" and are subject to low credit risk. These possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.
BBB+, BBB, BBB-	Subject to moderate credit risk. They are considered to be "Medium-Grade" and as such may possess certain speculative characteristics (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

In general, the 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 2 shows the comparable investment grade ratings of three major rating agencies:

Table 2.

	<u>Moody's</u>	<u>Fitch</u>	<u>Standard & Poor's</u>
Best Quality	Aaa	AAA	AAA
High Quality	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
Upper Medium Grade	A1	A+	A+
	A2	A	A
	A3	A-	A-
Medium Grade	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-

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.

Table 3 contains specific information regarding the credit worthiness of our four WPCRF 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 a High Quality to Upper Medium Grade rating. In summary, the DOH feels that the credit pool of WPCRF's loan portfolio has a high degree of solvency.

Table 3.

<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	\$329,496,734.51	Aa2/AA	63.0%
County of Hawaii	74,420,112.64	A1/A+	14.2%
County of Maui	90,344,452.86	Aa2/AA	17.3%
County of Kauai	<u>28,840,539.62</u>	A1/A+	<u>5.5%</u>
Totals	\$523,101,839.63		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 was selected by the DOH to perform a financial audit of the WPCRF Program's activities for SFY 2008. Although the activities and financial statement for fiscal year 2008 are unaudited as of the date of this report, Accuity, LLP did perform an annual financial audit of the WPCRF Program for SFY 2007.

The auditor's report for the SFY 2007 WPCRF financial statement was published on November 28, 2007. The audit report reads, *"In our opinion, except for the noncompliance described above regarding Reporting², 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 and provisions; and claims for advances and reimbursements that are applicable to its major Federal financial assistance program for the year ended June 30, 2007."*

The auditor's report for SFY 2008 will be completed and published sometime in November 2008.

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

² This finding by the auditors was of concern because a report, Standard Form-272, that is prepared semi-annually by the Department of Health's Administrative Service Office (ASO) on behalf of all the programs that receive Federal grants, was submitted to EPA after the January 15, 2007 deadline. It was noted that the report was late due to ASO's severe staffing shortages and personnel changes. This problem has been resolved for SFY 2008.

ATTACHMENT I

**WATER POLLUTION CONTROL REVOLVING FUND
PROJECTS RECEIVING SRF ASSISTANCE**

WATER POLLUTION CONTROL REVOLVING FUND PROJECTS RECEIVING SRF ASSISTANCE

Actual Binding Commitments

No.	Binding Commitment Date	Project Description (Project Name - Based on 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 Momi 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 Waikeke 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 Waikeke 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 WWRP 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 Waiala 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%	3,315,874.14
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 Waikeke 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 Pahoehe 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%	8,989,339.27
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	09/15/2006	NPS62-10 Hawaii County Cesspool Conversion Project (Interim 12/15/03)	0.50%	8,908,035.00
57	01/15/2007	47-07 Waimea Wastewater Treatment Plant Effluent Disposal System (Interim 03/15/01)	0.50%	2,158,817.00
58	05/15/2007	55-05 Wailua/Kapaa Sewer System Improvements (Interim 05/15/07)	0.50%	4,500,000.00
59	05/15/2007	54-09 Lahaina Wastewater Pump Station No. 4 Modifications (Interim 05/15/07)	0.50%	1,700,000.00
60	06/15/2007	46-70 Sand Island Wastewater Treatment Plant Primary Expansion Phase 1 (Interim 06/15/07)	0.50%	88,199,631.00
61	07/15/2007	46-68 Kuliouou Sewer Rehabilitation (Interim 07/15/07)	0.50%	12,264,662.00
62	08/15/2007	70-45 Wanaoa Road/Keolu Drive Reconstructed Sewer (Interim 08/15/07)	0.50%	53,128,541.00
63	11/15/2007	59-16 Marriott Wastewater Pump Station Improvements (Interim 11/15/07)	0.50%	951,716.00
64	04/15/2008	52-19 Wailuku-Kahului Wastewater Pump Station Forcemain Replacement (Interim 07/15/04)	0.50%	9,931,786.00

TOTAL FINAL PROJECTS

\$ 475,609,067.63

WATER POLLUTION CONTROL REVOLVING FUND PROJECTS RECEIVING SRF ASSISTANCE

Interim Binding Commitments

<u>No.</u>	<u>Binding Commitment Date</u>	<u>Project Description (Project Name - Based on the Interim Loan Agreement)</u>	<u>Rate</u>	<u>Loan Amount</u>
1	04/15/2005	62-19 Komohana Heights Large Capacity Cesspools Replacement	1.99% ^	\$ 1,282,600.00
2	07/15/2007	80-17 North Kona Sewer and Effluent Reuse	0.50%	6,747,000.00
3	08/15/2007	NPS52-39 Central Maui Landfill Gas Collection and Flare Construction	0.50%	4,200,000.00
4	08/15/2007	NPS72-00 Honokaa Large Capacity Cesspool Conversion	0.50%	10,163,172.00
5	11/15/2007	52-28 Countywide Pump Station Renovations	0.50%	2,500,000.00
6	11/15/2007	52-31 Islandwide EPA Consent Decree Sewer Rehabilitation	0.50%	7,000,000.00
7	11/15/2007	52-32 Wailuku-Kahului Wastewater Reclamation Facility Electrical and Solids Modifications	0.50%	2,000,000.00
8	11/15/2007	54-06 Lahaina Wastewater Pump Station No. 1 Modifications	0.50%	7,050,000.00
9	01/15/2008	NPS41-07 Molokai Integrated Solid Waste Facility Phase 3 Disposal Cell and Drainage Improvements	0.50%	3,300,000.00
10	03/15/2008	54-11 Front Street Sewer Line Rehabilitation	0.50%	1,500,000.00
11	03/15/2008	54-25 Hyatt/Kaanapali Force Main Replacements	0.50%	<u>1,750,000.00</u>
TOTAL INTERIM PROJECTS				\$ 47,492,772.00
TOTAL FINAL & INTERIM PROJECTS				\$ 523,101,839.63

Planned (Future) Interim Binding Commitments

<u>Project Description ("New" Project Names - Based on Priority List)</u>	<u>Proposed Loan Amount</u>
NPS72-00 Honokaa Large Capacity Cesspool Conversion (Adjust. Only - From Interim to Final)	\$ 1,717,400.00
59-15 Lihue Wastewater Treatment Plant Digester Repair	1,860,000.00
NPS90-04 Na'alehu Large Capacity Cesspool Conversion	5,644,008.00
NPS90-05 Pahala Large Capacity Cesspool Conversion	5,714,925.00
	<u>8,219,100.00</u>
TOTAL PLANNED (FUTURE) COMMITMENTS	\$ 23,155,433.00
TOTAL FINAL, INTERIM & PLANNED PROJECTS	\$ 546,257,272.63

ATTACHMENT 2

STATEMENT OF NET ASSETS

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

	June 30, 2008	June 30, 2007
ASSETS		
Current Assets		
Cash and cash equivalents in State Treasury (note C)	\$ 166,464,566.32	\$ 154,516,160.17
Accrued Interest (note D)	1,119,175.99	1,210,635.19
Accrued Administrative Loan Fees, program (note D)	24,488.04	29,295.73
Accrued Administrative Loan Fees, non-program (note D)	568,474.43	562,233.38
Accrued interest on investments	833,045.93	1,381,631.92
Due from federal government	-	-
Current maturities of loans receivable (note D)	18,702,181.64	17,246,964.15
Total Current Assets	187,711,932.35	174,946,920.54
Loans Receivable, net of current maturities (note D)	179,279,630.79	171,819,443.02
Capital Assets		
Office Equipment (notes B and F)	54,840.98	54,840.98
Less: Accumulated Depreciation (notes B and F)	(47,365.54)	(37,790.18)
Total Capital Assets	7,475.44	17,050.80
TOTAL ASSETS	\$ 366,999,038.58	\$ 346,783,414.36
 LIABILITIES AND FUND BALANCE		
Current Liabilities		
Payroll Payable	\$ 55,716.49	\$ 41,278.77
Accounts Payable	15,644.23	12,678.57
Accrued Vacation, current portion (note B)	68,719.72	21,725.40
Total Current Liabilities	140,080.44	75,682.74
Accrued Vacation, net of current portion (note B)	161,419.97	195,258.49
Net Assets		
Invested in Capital Assets	7,475.44	17,050.80
Restricted	366,690,062.73	346,495,422.33
Unrestricted	-	-
Total Net assets	366,697,538.17	346,512,473.13
TOTAL LIABILITIES AND NET ASSETS	\$ 366,999,038.58	\$ 346,783,414.36

The accompanying notes are an integral part of this statement.

ATTACHMENT 3

**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, 2008	June 30, 2007
REVENUES		
Interest earnings from loans (note B)	\$ 3,294,900.10	\$ 3,443,195.06
Administration loan fee earnings, program (note B)	72,484.87	205,944.00
Administration loan fee earnings, non-program (note B)	1,511,025.62	1,371,115.83
Total Revenues	4,878,410.59	5,020,254.89
EXPENSES		
Administrative expenses for SRF activities	6,299.72	223,323.14
Administrative expenses for State activities, program	(4,916.84)	346,429.44
Administrative expenses for State activities, non-program	1,483,765.89	1,010,817.60
Total Expenses	1,485,148.77	1,580,570.18
OPERATING INCOME	3,393,261.82	3,439,684.71
NON-OPERATING REVENUE		
Federal contribution	8,834,588.66	47,792,849.12
State matching contribution	995,000.00	2,053,000.00
Interest earnings from investment (note B)	6,962,214.56	6,476,357.49
Inter government transfer	-	-
Total Non-operating Revenues	16,791,803.22	56,322,206.61
CHANGE IN NET ASSETS	20,185,065.04	59,761,891.32
Net assets - beginning of year	346,512,473.13	286,750,581.81
Net assets - end of year	\$ 366,697,538.17	\$ 346,512,473.13

The accompanying notes are an integral part of this statement.

ATTACHMENT 4

STATEMENT OF CASH FLOWS

State of Hawaii
Water Pollution Control Revolving Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

Cash flows from operating activities:	
Interest income from loans	\$ 3,386,359.30
Administrative Loan Fees	1,582,077.13
Principal repayments on loans	15,463,271.14
Disbursement of loan proceeds	(24,378,676.40)
Personnel costs	(1,294,188.00)
Payments to vendors	<u>(150,826.23)</u>
Net cash flows used in operating activities	(5,391,983.06)
Cash flows from noncapital financing activities:	<u>9,829,588.66</u>
Net cash flows provided by noncapital financing activities	9,829,588.66
Cash flows from capital and related financing activities:	
Purchase of equipment	<u>-</u>
Net cash flows provided by capital and related financing activities	-
Cash flows from investing activities:	
Interest from investments	<u>7,510,800.55</u>
Net cash flows provided by investing activities	7,510,800.55
NET INCREASE IN CASH	11,948,406.15
Cash Balance at July 1, 2007	<u>154,516,160.17</u>
Cash Balance at June 30, 2008	<u><u>\$ 166,464,566.32</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,393,261.82
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	9,575.36
Changes in assets and liabilities:	
Decrease in interest receivable on loans	91,459.20
Increase in administrative fee receivable on loans	(1,433.36)
Increase in accrued salaries and other administrative costs	30,559.18
Increase in loans receivable	<u>(8,915,405.26)</u>
Net cash provided by operating activities	<u><u>\$ (5,391,983.06)</u></u>

The accompanying notes are an integral part of this statement.

ATTACHMENT 5

NOTES TO FINANCIAL STATEMENTS

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 \$72.7 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 been awarded over \$203.4 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, 2008

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, 2008

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, 2008

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, 2008, accumulated sick leave was approximately \$673,300.00.

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

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, 2008

NOTE D - LOANS RECEIVABLE

At June 30, 2008, the WPCRF had loans receivable from the following government entities:

	<u>SRF Activity</u>	<u>State Activity</u>
Twenty-five 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.	\$ 114,775,875.57	\$ 4,967,706.11
Sixteen 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.	\$ 24,709,860.12	\$ 4,666,326.41

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE D - LOANS RECEIVABLE (continued)

	<u>SRF Activity</u>	<u>State Activity</u>
Fourteen 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.	\$ 31,059,095.12	\$ 4,220,326.38
Eight 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>\$ 7,529,630.99</u>	<u>\$ 6,052,991.73</u>
Total	\$178,074,461.80	\$19,907,350.63

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE D - LOANS RECEIVABLE (continued)

Loans mature at various dates through 2028. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2009	\$ 18,702,181.64
SFY2010	17,251,239.01
SFY2011	17,590,756.97
SFY2012	17,911,755.83
SFY2013	18,258,279.66
Thereafter	<u>108,267,599.32</u>
	\$197,981,812.43

As of June 30, 2008, accrued interest receivable, accrued administration loan fee receivable as program income, and accrued administration loan fee receivable as non-program income on loans totaled \$1,119,175.99, \$24,488.04, and \$568,474.43, 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, 2008, the WPCRF has committed additional funding to the following counties:

City & County of Honolulu	\$ -
County of Hawaii	18,192,772.00
County of Kauai	-
County of Maui	<u>29,300,000.00</u>
Total	\$ 47,492,772.00

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

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, 2008, EPA has awarded \$203,417,248.00 to the State, of which \$186,825,974.52 has been drawn for loans and program administration expenses. The State has also legislated matching funds of \$40,683,450.67, of which \$40,683,450.67 has been committed.

Table 4 summarizes the capitalization grants awarded to the WPCRF, the amounts drawn on each grant, and the funds available for future activity as of June 30, 2008:

Table 4.

<u>Budget Period</u>	<u>FFY</u>	<u>Amount</u>	<u>Total</u> <u>Cash Draws</u>	<u>EPA Draws</u>	<u>Funds</u> <u>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	\$ 10,325,106.00	\$ -	\$ -
04/15/04 - 09/30/10	03	\$ 10,257,984.00	\$ 9,595,096.52	\$ -	\$ 662,887.48
10/01/05 - 09/30/11	04	\$ 10,264,221.00	\$ 9,853,652.00	\$ -	\$ 410,569.00
09/01/06 - 06/30/15	05	\$ 8,330,100.00	\$ 3,000,000.00	\$ 2,500.00 ¹	\$ 5,327,600.00
07/15/07 - 06/30/17	06	\$ 6,750,716.00	\$ 4,835,999.00	\$ -	\$ 1,914,717.00
03/01/08 - 06/30/17	07	\$ 8,273,000.00	\$ -	\$ -	\$ 8,273,000.00
		<u>\$ 203,417,248.00</u>	<u>\$ 186,825,974.52</u>	<u>\$ 2,500.00</u>	<u>\$ 16,588,773.48</u>

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, 2008

NOTE E - FEDERAL FUNDING AND STATE MATCH (continued)

Table 5 summarizes the State match funds received for each EPA capitalization grant awarded to the WPCRF, the federal fiscal year (grant year), the source of state funds, and the dollar amount of state match for each EPA capitalization grant as of June 30, 2008.

Table 5.

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 code	\$ 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 code	\$ 1,695,362.48
	Act 218/95	\$ 224,828.00
	Act 328/97	\$ 311,586.33
	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 41/04	\$ 2,052,844.00
05	Act 178/05	\$ 1,666,020.00
06	Act 160/06	\$ 1,350,144.00
07	Act 281/00	\$ 154,696.00
	Act 259/01	\$ 21,386.00
	Act 177/02	\$ 28,979.00
	Act 200/03	\$ 34,403.00
	Act 41/04	\$ 33,156.00
	Act 178/05	\$ 386,980.00
	Act 213/07	\$ 995,000.00
	Total 07 Match	\$ 1,654,600.00
		Total 20% State Match \$ <u>40,683,450.67</u>

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008

NOTE F - EQUIPMENT

The following are the changes in equipment and accumulated depreciation during SFY 2008:

	Balance at <u>July 1, 2007</u>	SFY 2008		Balance at <u>June 30, 2008</u>
		<u>Increases</u>	<u>Decreases</u>	
Equipment	\$54,840.98	\$ -	\$ -	\$54,840.98
Accumulated Depreciation	37,790.18	9,575.36	-	47,365.54
	<u>\$17,050.80</u>	<u>(\$9,575.36)</u>	<u>\$ -</u>	<u>\$ 7,475.44</u>