

**REPORT TO THE TWENTY-FIFTH LEGISLATURE
STATE OF HAWAII
2010**

DRINKING WATER TREATMENT REVOLVING LOAN FUND

**PURSUANT TO SECTION 340E-33,
HAWAII REVISED STATUTES
RELATING TO THE
DRINKING WATER TREATMENT REVOLVING LOAN FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL HEALTH ADMINISTRATION
ENVIRONMENTAL MANAGEMENT DIVISION
SAFE DRINKING WATER BRANCH
WASTEWATER BRANCH
DECEMBER 2009**

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OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

This annual report is submitted to the State of Hawaii Legislature pursuant to Section 340E-33 of the Hawaii Revised Statutes. It covers the reporting period State Fiscal Year (SFY) July 1, 2008 to June 30, 2009 and describes how the Hawaii Drinking Water Treatment Revolving Loan Fund (DWTRLF) has met its goals and objectives as identified in the Intended Use Plan (IUP) and Capitalization Grant Application. This report also discusses the sources and uses of the funds during SFY 2009.

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

B. EXECUTIVE SUMMARY

The State of Hawaii, Drinking Water Treatment Revolving Loan Fund (DWTRLF) program was established by the 1997 State Legislature as the result of the 1996 Federal amendments to the Safe Drinking Water Act. This program provides low interest loans to Hawaii's four County water departments for the construction of drinking water infrastructure projects. These projects help achieve or maintain compliance with drinking water standards; protect public health and the environment.

Major Activities in SFY 2009

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

- Executed four (4) final loan agreements with a total value of \$12,056,397.17;
- Executed three (3) interim loan agreements with a total value of \$7,234,205;
- Executed six (6) supplemental loan agreements with a total value of \$17,916,463.92;
- Continued to work with various counties on a number of other potential projects, which we anticipate will become future loan projects;
- Loaned to the counties 77% of the total funds available;
- Received the FFY 2008 capitalization grant funds from EPA for \$8.1 million;
- Applied for and received \$19.5 million from the American Recovery and Reinvestment Act of 2009 (ARRA); and
- Requested and received the State's 20% match of approximately \$1.6 million from the Legislature.

Major Changes in SFY 2009

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

- The IUP for SFY 2009 was amended on May 6, 2009 to include an additional \$19.5 million from ARRA; and
- The County of Kauai, Department of Water and the County of Hawaii, Department of Water Supply, the City and County of Honolulu Board of Water Supply, and County of Maui, Department of Water Supply made a commitment to continue to obtain DWTRLF program loans.

The program has met its objectives of:

- a) Providing low interest loans to Hawaii's four water departments for the construction of drinking water infrastructure;
- b) Operating the program in perpetuity and in such a manner that it is self sufficient; and
- c) Complying with all EPA State Revolving Fund program requirements including federal cross cutters, Minority Business Enterprise/Women Business Enterprise, Disadvantaged Business Enterprise requirements and standard accounting practices. This conclusion is supported by EPA's annual performance evaluation as well as the latest (SFY 2008) annual independent audit of the program by the accounting firm of Accuity LLP.

Future Outlook and Activities to be addressed in SFY 2010

The national and State's economy deteriorated in SFY 2009. On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA) of 2009 into law to help stimulate the economy, partly by upgrading the nation's infrastructure and creating and retaining jobs.

The following major activities will be conducted in SFY 2010:

- Continuing to service existing loans;
- Receiving the FFY 2009 Federal Capitalization Grant from EPA;
- Submitting a request to the 2010 Legislature for the State's 20% match to EPA's capitalization Grant;
- Continuing to work with all four County water departments to ensure that the model loan agreement languages are acceptable;
- Executing final loan agreements, which were delayed in SFY 2009;
- Overseeing construction activities for ongoing loans, as well as new projects to be initiated in SFY 2010;
- Continue to oversee projects funded by ARRA; and
- Revising the program's Functional Procedures.

C. MAJOR INITIATIVES

I. An overview of the DWTRLF for SFY 2009:

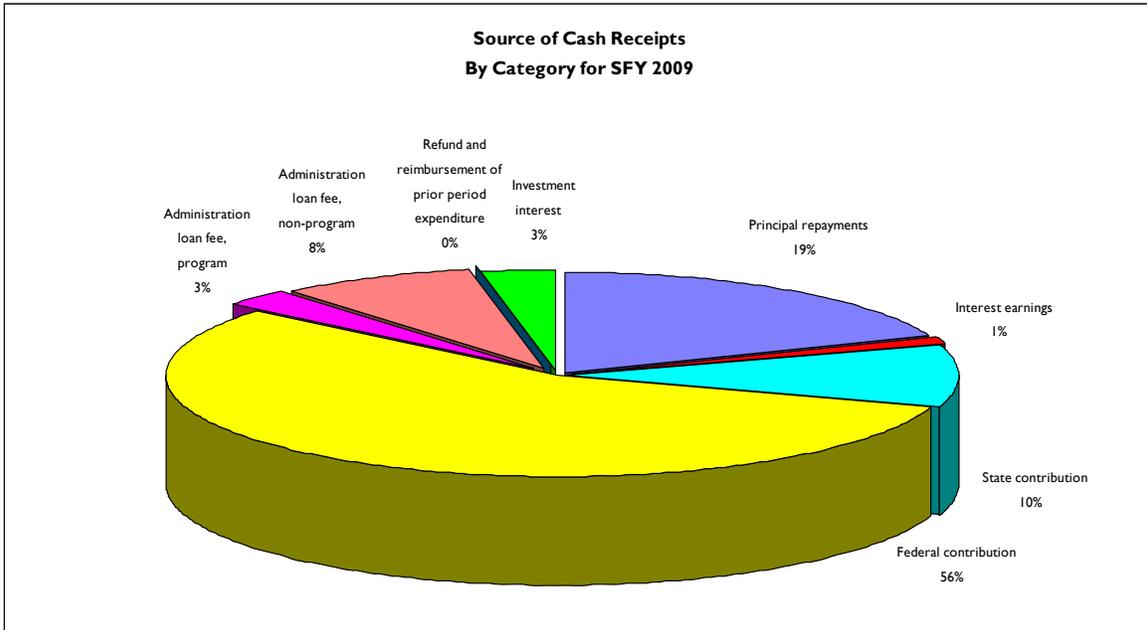
a. Funds withdrawn from the federal Automated Standard Application for Payments (ASAP) system:	\$ 9,092,888.20
b. State match funds for FFY 2008 Federal Capitalization Grant provided by the Hawaii State Legislature, pursuant to Act 158/08:	\$ 1,671,000.00
c. State match funds distributed:	\$ 2,559,555.45
d. Loans executed:	
Four Final Loan Agreements:	\$ 12,056,397.17
Three Interim Loan Agreements:	7,234,205.00
Six Supplemental Loan Agreements:	<u>17,916,463.92</u>
Total Loans Executed:	\$37,207,066.09
e. Principal repayments received:	\$ 3,128,123.46
f. Interest repayments received:	\$ 228,452.53

2. The award of a low-interest DWTRLF 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 water boards. Second, after project contracts are awarded, a Final Loan Agreement is prepared and executed, after which funds can be disbursed.

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

Graph I below shows the percentage breakdown of sources of cash by category received for the SFY 2009.

Graph I.



a. The following Interim Loan Agreements were processed and signed in SFY 2009:

<u>County Board</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Kauai	Kapilimao 0.5 MG Tank (Executed 8/15/08)	Senate District 7 House District 16	\$ 4,733,954.00
Maui	Napili Well "A" Site Improvements (Executed 2/15/09)	Senate District 5 House District 10	\$ 1,894,084.00
Hawaii	Hakalau Spring Improvement (Executed 4/15/09)	Senate District 1 House District 1	\$ 606,167.00
TOTAL INTERIM LOAN AGREEMENTS			\$ 7,234,205.00

b. The following Final Loan Agreements were processed and signed in SFY 2009:

<u>County Board</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Maui	Napili Well "A" Site Improvements (Executed 2/15/09)	Senate District 5 House District 10	\$ 1,894,084.00
Kauai	Stable 1.0 MG Tank & Connecting Waterline (Executed 3/15/09)	Senate District 7 House District 15	\$ 8,082,619.17
Hawaii	Hakalau Spring Improvement (Executed 4/15/09)	Senate District 1 House District 1	\$ 606,167.00
Honolulu	Oahu Ave and Huelani Drive 8-inch Mains (Executed 5/15/09)	Senate District 10 House District 24	\$ 1,473,527.00
TOTAL FINAL LOAN AGREEMENTS			\$12,056,397.17

c. The following Supplemental Loan Agreements were processed and signed in SFY 2009:

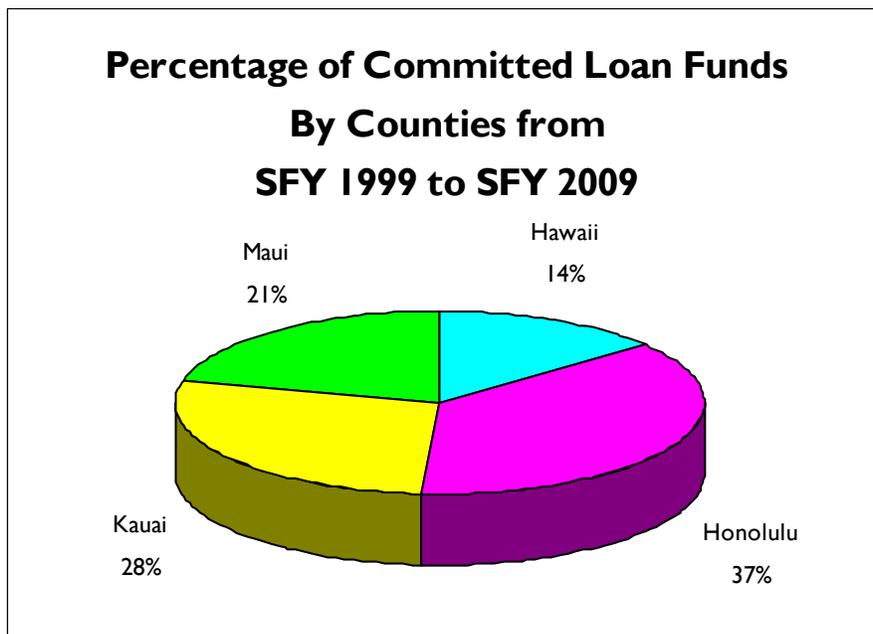
<u>County Board</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Hawaii	Honomu Well "A" (Replace Akaka Falls Spring) (Executed 8/15/08)	Senate District 1 House District 1	\$ 4,373,944.00
Hawaii	Pahala Well "B" (Replace Alii Tunnel) (Executed 8/15/08)	Senate District 2 House District 5	\$ 2,425,000.00
Kauai	Kekaha Well (Kapilimao Well) (Executed 2/15/09)	Senate District 7 House District 16	\$ 862,882.74

Kauai	Poipu Road 16 inch Main Replacement (Executed 2/15/09)	Senate District 7 House District 16	\$ 5,158,885.83
Honolulu	Pailani Street Water System Improvements (Executed 3/15/09)	Senate District 20 House District 43	\$ 2,790,658.33
Kauai	16 inch Waterline Replacement along Kuhio Highway, Leho Drive to North Papaloa Road, Wailua, Kauai, Hawaii (Executed 3/15/09)	Senate District 7 House District 14	\$ 2,305,093.02
TOTAL SUPPLEMENTAL LOAN AGREEMENTS			\$17,916,463.92

- d. There were no DWTRLF projects that were awarded Interim Loan Agreements in previous fiscal years and continues to be processed for Final Loan Agreements at the end of SFY 2009.

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

Graph 2.



D. GOALS AND ACCOMPLISHMENTS

Section 1452(b) of the Safe Drinking Water Act requires the State to prepare an Intended Use Plan (IUP), identifying the uses of funds in the DWTRLF and describing how those uses support the goals of the DWTRLF program. The IUP is a requirement in the State's SRF Capitalization Grant Application process to EPA. It is prepared annually and made available for public comment and review. The program finalized its IUP for SFY 2009 on June 2, 2008. The IUP for SFY 2009 was revised to include the ARRA capitalization grant, its unique requirements, and projects to be funded with ARRA monies. The revised IUP for SFY 2009 was finalized on May 6, 2009.

The following is a summary of the goals and accomplishments for SFY 2009 and a summary of the program achievements throughout the year.

Long-Term Goals:

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

The DWTRLF program continues to work with all four major counties in Hawaii to provide SRF loan funds. The four counties own and manage a majority of the public water systems statewide with small, medium, and large sized systems and the low interest loan funds provide an affordable means of financing numerous projects in different systems. The various projects in the different systems are thus able to provide assistance to many people throughout the State of Hawaii.

2. To maintain the DWTRLF Program in perpetuity.

The DWTRLF program continues a conservative approach to expenditures in SFY 2009 ensuring the perpetuity of the program. To supplement the four percent set-aside and administrative demands, the program assesses fees to each loan to ensure that the administrative needs are financed in perpetuity.

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

In previous years, the DWTRLF program successfully revised the Hawaii Revised Statutes (HRS) to authorize a linked deposit program. After the fact, it was found that HRS, Chapter 38.3, however, imposes additional requirements on participating financial institutions to maintain a 100% reserve, equal to the amount loaned. The reserve fund requirement and other possible regulatory requirements will ultimately limit participation by financial institutions and the program needs to conduct further research to ensure that the program developed, have benefits for all parties involved. Thus, further research needs to be completed to entertain innovative alternate means to

provide funding to privately-owned public water systems. Additionally in SFY 2009, the DWTRLF program has been concentrating its efforts in working with all of the County water departments to move projects forward to construction and execution of the final loan agreements.

4. To promote Green Infrastructure, water and energy efficiency, and the reduction of greenhouse gas emissions through the use of both base DWTRLF and ARRA funds.

This long-term goal was included in the revised SFY 2009 IUP to meet ARRA's requirement of using at least 20 percent of ARRA funds for projects that address green infrastructure, water or energy efficiency improvements or other environmentally innovative activities. Examples of such projects are replacement or rehabilitation of water distribution lines and energy efficient retrofits and upgrades to pumps and treatment processes. Projects are evaluated for their contribution to improving water and energy efficiency, the reduction of greenhouse gasses, and sustainability during the proposed projects application review period.

Short-Term Goals:

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

The DWTRLF staff continues to work with Northbridge Environmental Management Consultant in developing an Access Database program capable of tracking information and providing reports for the DWTRLF program (referred to as the Northbridge database or Project Manager). Currently, the database is used to produce a repayment reminder and receipt letters to loan recipients. In addition, technical staff plans on using the database to track the project schedule and the receipt and review of the planning, design and construction phase documents.

Development and testing of the program will continue in SFY 2010. Staff expects to continue work on the program until a viable product is achieved.

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

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

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

The DWTRLF program continues to monitor, discuss and review the technical, managerial and financial status and condition of the four Hawaii Counties, which is the current customer base. Additionally, the Safe Drinking Water Branch, through the Capacity Evaluation program, continues to work with various private and small water systems to evaluate their technical, managerial and financial status and condition.

4. To maximize job creation and to promote economic recovery by funding ready-to-proceed projects using ARRA funds.

One of the intents of ARRA is to create and retain jobs through the rebuilding of the nation's infrastructure. A key requirement of ARRA is to fund projects that are "shovel-ready" and can start construction immediately.

5. To utilize at least 20 percent of ARRA funds for projects that incorporate Green Infrastructure, water and energy efficiency, and the reduction of greenhouse gas emissions.

Examples of such projects are replacement or rehabilitation of water distribution lines and energy efficient retrofits and upgrades to pumps and treatment processes. Projects are evaluated for their contribution to improving water and energy efficiency, the reduction of greenhouse gasses, and sustainability during the proposed projects application review period.

6. To commit at least 50 percent of the ARRA funds to projects that will be under contract or start construction by June 17, 2009.

Hawaii's four county water systems mutually agreed to equally share the \$19.5 million of ARRA funds if their projects start construction by June 17, 2009.

7. To commit 100 percent of the ARRA funds to projects that will be under contract or start construction by February 17, 2010.

This is a deadline imposed by ARRA and all Hawaii drinking water ARRA projects have met this goal.

E. COMPLIANCE ISSUES

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

1. Environmental Review - Each DWTRLF project has undergone an environmental assessment and review. Environmental assessment documents were prepared by the County Water Departments in accordance with HRS Chapter 343 (Environmental Impact Statements) and Hawaii Administrative Rules, Chapter 11-200, and were submitted to the Office of Environmental Quality Control (OEQC) of the State of Hawaii for review and publication. For exempt projects, DWTRLF Exempt Project Certification forms were submitted to the DWTRLF program with the qualifying exemption identified.
2. Intended Use Plan - The DWTRLF IUP for the State of Hawaii SFY 2009 / FFY 2008 Appropriation was finalized on June 2, 2008. A notice for public participation and input was published on April 7, 2008 with an open comment period until May 9, 2008. Due to changes in program spending and the subsequent inclusion of that in the IUP, the initial public comment period was extended to May 30, 2008 and a notice for public participation and input was published on April 30, 2008. Public comments were received from the County of Hawaii, Department of Water Supply, the County of Kauai, Department of Water, and the County of Maui, Department of Water Supply requesting minor updates to their projects to reflect current project descriptions, construction cost estimates and construction start dates. The County of Kauai, Department of Water requested an additional project to be added to the Priority List of Projects. These changes did not significantly revise the ranking of the Priority List of Projects.
3. Other Federal (“Cross-cutter”) Requirements - The County Water Departments certify for each of their DWTRLF projects that they are in compliance with all the federal cross-cutter rules and regulations. Each project must include the Federal Boiler Plates in the project specifications used for bidding.

In August 2008, the Federal Requirements for DWTRLF Loan Applicants and the “DWSRF Boilerplate” Federal Requirements for Consultants and Contractors was revised to include the EPA-mandated Disadvantaged Business Enterprise program requirements.

PACE CONCERNS:

The Hawaii DWTRLF program has been working closely with EPA and the four Counties to improve the pace of the program and to execute final loan agreements in a timely manner. In SFY 2009, EPA set a target fund utilization rate of 85%. Even with the unexpected delay in getting some of the loan agreements signed, the state program still managed to achieve a fund utilization rate of 77%.

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

1. U.S. Environmental Protection Agency, Drinking Water State Revolving Fund (DWSRF) Strategic Plan Goals and Objectives.

Strategic Plan Goal 2: Clean and Safe Water

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

Strategic Plan Sub-objective 2.1.1: Water Safe to Drink - By 2011, 91% of the population served by community water systems will receive drinking water that meets all applicable health-based drinking water standards through effective treatment and source water protection.

Hawaii's Contribution and Support of the National EPA DWSRF Strategic Plan:

The Hawaii DWSRF program supports the above mentioned National USEPA DWSRF Strategic Plan Goal 2 (Clean and Safe Water), Objective 2.1 (Protect Human Health), and Sub-objective 2.1.1 (Water Safe to Drink). Specifically, Hawaii has established and is managing the revolving loan fund to make low-cost loans to water systems to finance the cost of infrastructure projects to achieve or maintain compliance with Safe Drinking Water Act requirements. Hawaii DWSRF activities support USEPA Program Reporting Code (PRC) 201B81E.

Every summer, Hawaii and USEPA negotiates Hawaii's Strategic Plan commitments for the SFY starting July 1. This year, Hawaii submitted its Strategic Plan commitments for the Federal Fiscal Year starting on October 1st and has projected a Fund Utilization Rate of 85%.

All DWSRF loans have assisted public water systems to meet the federal and state drinking water compliance requirements. Details of Hawaii's DWSRF activities supporting the National USEPA Strategic Plan will be submitted to EPA as part of the DWNIMS data collection effort.

2. Closed Loans: As of June 30, 2009 and since the inception of the program, Hawaii's DWSRF program has executed 30 loans totaling \$92,966,890.69. In SFY 2009, Hawaii's DWSRF program executed four finals, three interims, and six supplemental loan agreements for a total of \$12,056,397.17, \$7,234,205.00, and \$17,916,463.92, respectively.

FINANCIAL SECTION

The following is a summary of the financial activities of the program for the fiscal year ended June 30, 2009. The Department of Health (DOH) considers the DWTRLF to be a special revolving fund. The fund was established to receive proceeds from specific revenue sources such as Federal Capitalization Grants, State Capital Improvement Project (CIP) Appropriations for State Match, loan repayments, and interest earnings from investments and fees.

A. INTERNAL CONTROLS

The DWTRLF program is responsible for establishing and maintaining a system of internal accounting controls to ensure compliance with applicable laws and regulations related to federal and state financial assistance programs. The objective of an internal control system is to provide the program with reasonable, but not absolute, assurances that assets are safeguarded against loss from unauthorized use or disposition. It also ensures that transactions are executed and recorded with proper authorization to permit preparation of financial statements in accordance with generally accepted accounting principles.

Based on annual Performance Evaluation Reviews by EPA and annual financial audits by independent auditors, we believe that the DWTRLF program's internal controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

B. ACCOMPLISHMENTS OF THE PROGRAM

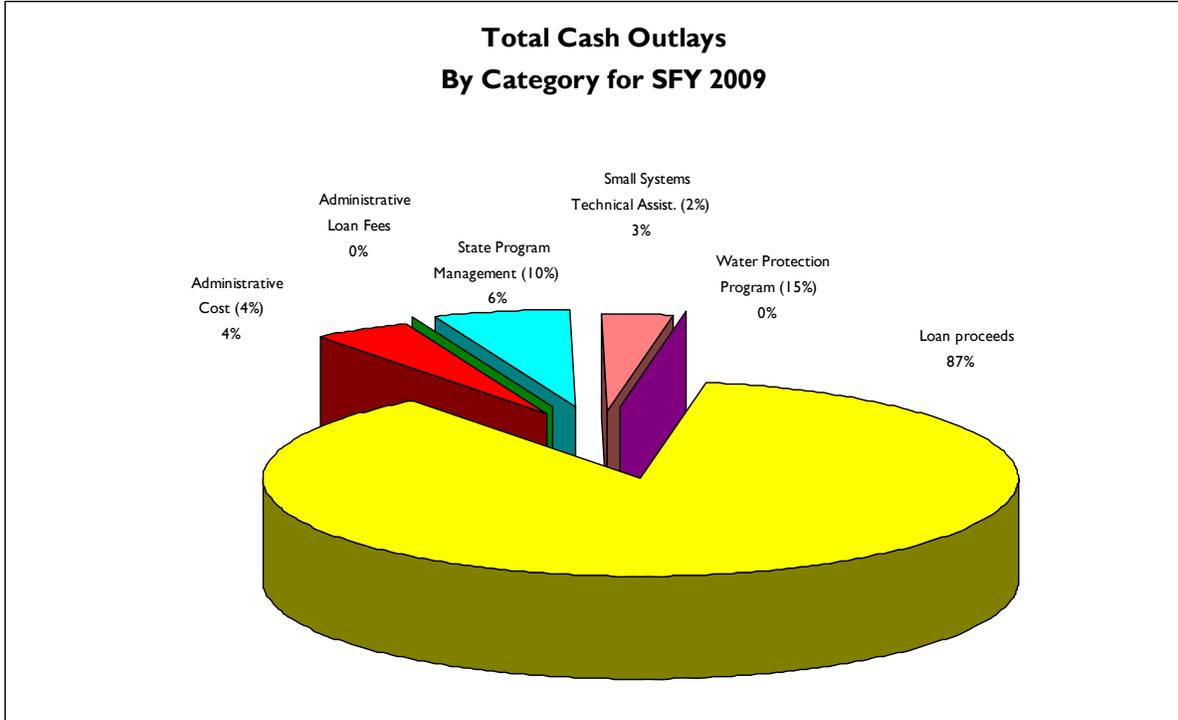
I. Sources of Funds:

Since the program's inception, the DOH has received a total of \$99,939,500¹ in federal capitalization grants. Of this amount, \$17,113,231.73 was set aside to support other drinking water program initiatives and administration of the loan program with the remaining \$82,826,268.27 earmarked for DWTRLF loan funds.

¹ As of June 30, 2009, the DWTRLF program has not received its capitalization grant for FFY 2009, totaling \$8,146,000.

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

Graph 3.



2. State Match:

Pursuant to Appropriations Act 158/08, the 2008 Hawaii State Legislature appropriated \$1,671,000 in general obligation bond funds for the required state match for the FFY 2008 EPA SRF Capitalization Grant. The state match was transferred to the DWTRLF's account in September 2008.

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, 2009, the DOH has committed \$74,314,336.54 of federal capitalization grant funds and \$18,413,085.59 of state match funds to DWTRLF projects, a 16.7% and

14.9% increase from 2008 to 2009, 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 DWTRLF assistance. An increase or decrease in funding to any specific project does not count as an additional binding commitment, but is included in binding dollars.

The SRF program has committed \$97,700,844.69 or 80.9% of all federal funds available since the inception of the program. The program also has another \$14,286,272.54 in pending commitments which, when executed, will bring the total binding commitment percentage to 92.7% of all funds available.

4. Assistance as a Percentage of Funds Available

The DWTRLF's percentages for Assistance as a Percentage of Funds Available, based on the National Information Management System (NIMS) for 2004, 2005, 2006, 2007, 2008, and 2009 were: 28%, 34%, 73%, 81%, 71%, and 77%, respectively. This percentage measures how much of the total funds available, the program has loaned to its customers.

5. Disbursements as a Percentage of Assistance

The DWTRLF's percentages for Disbursements as a Percentage of Assistance, based on NIMS, for 2004, 2005, 2006, 2007, 2008, and 2009 were: 92%, 77%, 39%, 65%, 75%, and 71%, 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 \$9,092,888.20 of its capitalization grant funds from the ASAP system during SFY 2009. Of this amount, \$7,202,484.07 was used for DWTRLF loans and \$1,890,404.13 was used to fund the DWTRLF set-aside operations.

7. Loan Repayments and Investment Interest:

Under the DWTRLF, the program established several accounts or activity codes to track the program's revenue sources. These funds are legally restricted for use to fund expenditures for drinking water infrastructure projects, eligible costs for program set-aside activities under the Safe Drinking Water Act, and administrative costs relating to the operation and maintenance of the DWTRLF Program.

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

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

In SFY 2009, DOH received \$3,128,123.46 from principal repayments, \$228,452.53 from interest from repayments, and \$421,739.78 from investment interest.

For SFY 2010, the program is projected to receive principal and interest repayments and investment interest of \$3,492,452.61, \$231,718.09, and \$583,543.79, respectively.

8. MBE / WBE:

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

	<u>MBE</u>	<u>WBE</u>
Construction	51%	5%
Services	49%	23%
Supplies	53%	23%
Equipment	10%	17%

For SFY 2009, Table I shows the dollar amount of contracts the DWTRLF loan recipients have awarded to MBE's and WBE's and the amount of services the program procured from MBE/WBE's:

Table I.

	<u>Total Amount</u>	<u>Amount Awarded to MBE</u>	<u>Percentage of MBE Utilization</u>	<u>Amount Awarded to WBE</u>	<u>Percentage of WBE Utilization</u>
All Services	\$ 853,465.21	\$ 6,924.73	0.8%	\$11,698.98	1.4%
Construction	\$12,671,534.17	\$14,095.00	0.1%	\$ 0.00	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 now submitted

directly to EPA on a semi-annual basis. Prior to May 2008, reporting was done on a quarterly basis. As a result of the change, for SFY 2009, only nine months of data was captured. However, starting in SFY 2010, the full year will be reported.

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.

All forms are signed by the program's authorized representative and are on file with EPA.

C. PROGRAM ACTIVITIES

Highlights of the program's activities are as follows:

1. The program completed a priority list, developed the SFY 2009 Intended Use Plan, and prepared the capitalization grant application.
2. The program serviced 31 interim and final DWTRLF loans which totaled \$97,700,844.69.
3. The program reviewed planning documents (including the preliminary engineering reports, plans and specifications, environmental assessment documents, and federal requirement documents) for various projects.
4. The program executed three interims, four finals, and six supplemental loan agreements for \$7,234,205.00, \$12,056,397.17, and \$17,916,463.92, respectively.
5. The program conducted construction inspections of ongoing DWTRLF projects under construction.
6. To administer the DWTRLF program and its related drinking water programs, the program paid \$11,486,617.88. This consisted of \$9,984,386.52 in loan disbursements and \$434,075.45 in administrative costs (426). The expenditures for the other drinking

water programs were: \$671,643.51 for State Program Management (10%)(427); \$335,808.51 for Small Systems Technical Assistance (2%)(428); \$13,033.23 for Operator Certification (10%)(435); and \$32,234.39 for Wellhead Protection Program (15%)(436), and \$15,436.27 for Technical or Financial Assistance to PWS's (15%)(437).

Administrative Loan Fees and Administrative Cost (4%)

The State does not contribute any money toward administering the DWTRLF Program and its drinking water-related programs. Furthermore, Federal law requires that the DWTRLF program be operated in perpetuity. Thus, to pay for employee salaries and benefits and to comply with the Federal law, the DOH implemented a loan fee program on May 17, 2000.

For SFY 2009, the DWTRLF program collected \$483,717.02 in administration loan fee - program income and \$1,227,255.63 in administration loan fee - non-program income. In addition, the program can use up to four percent (4%) of each year's federal capitalization grant to pay for administrative costs.

Small Systems Technical Assistance (2%)

I. Circuit Rider Program

The SDWB issued a contract to provide training to small water systems using the 2% monies starting in October 2004 and continuing through October 2009. This contract is more commonly known as the "Circuit Rider Program." Under the terms of this contract, the contractor (Rural Community Assistance Corporation) has been meeting with the staff of small, publicly- and privately-owned public water systems and providing hands on training in technical, financial, and managerial areas.

The Circuit Rider Program also implemented a "hot line" via either telephone or e-mail to provide operators with an avenue to obtain help when needed. The Circuit Rider continues to demonstrate positive results with participating water systems on all islands. More water system managers and operators are beginning to ask for assistance on "how to" operate and manage their systems. Clearly, going out to offer help without the risk of enforcement has been a welcomed approach to providing technical assistance.

In October 2006, the SDWB expanded the Circuit Rider program to meet growing demand. The program now provides assistance to all small public water systems serving 10,000 or less people in the State, which includes private, State, County, and Federal (national parks and military) water systems. Rural Community Assistance Corporation also added a second Circuit Rider staff member to the program. The current contract will expire on September 30, 2009. The contract will use approximately \$1,040,000 from this fund.

In April 2009, a request for proposals for a new Circuit Rider Program contract was

issued. Three (3) proposals were received and evaluated. The contract is currently being finalized. A contract notice to proceed is anticipated on October 1, 2009 with a five (5) year contract period. This Circuit Rider Program contract will also use funds from the Local Assistance and Other State Programs (15%).

2. Hawaii Section AWWA Annual Conference

The SDWB sponsored 65 small water system staff to attend the American Water Works Association Hawaii Section annual conference in Waikiki, May 13 – 15, 2009. The SDWB paid the conference registration for each participant. Participation in the conference provided technical training, promoted participation in the Circuit Rider program, demonstrated opportunities for networking and professional development through membership in a professional organization, and educated water system staff on standard operating practices, regulatory requirements, and potentially useful products and services. The conference also included a small systems networking session, where small water systems were able to discuss their problems and solutions with each other. This technical assistance effort will help to improve future compliance and public health protection. The total cost of the conference and technical reference package was approximately \$17,000.

State Program Management (10%)

The Safe Drinking Water Act Amendments of 1996 provided that up to ten percent of the DWTRLF Capitalization Grant could be used for State Program Management. These funds were generally delegated to support four major activities.

1. Source Water Protection Program

As the Safe Drinking Water Branch (SDWB) moves from source water assessments to source water protection, efforts have been focused on educating water systems, the public, and other applicable organizations on development of protection strategies and plans. This year, the SDWB continued to meet with water systems and government agencies on the results of the assessments and plans for source water protection.

2. Public Water System Supervision Program

The Hawaii Public Water System Supervision Program made substantial progress in improving our sanitary survey compliance. The SDWB completed 25 sanitary surveys of public water systems throughout the state during SFY 2009. These surveys contribute significantly to strengthening the protection of drinking water quality. Due to staffing shortages, the SDWB, will continue to contract with engineering firms to perform the sanitary surveys of the larger systems statewide including: the Honolulu Board of Water Supply's Honolulu-Windward-Pearl Harbor system and Waipahu-Ewa-Waianae system starting in SFY 2010; the upcountry Maui surface water systems (Lower Kula, Upper Kula, Makawao, and Wailuku) starting in SFY 2011 (est.) and the Hawaii Department of

Water Supply's North and South Kona public water systems (contract date TBD).

The program continued to provide certification reviews for laboratories performing safe drinking water analyses. Approximately 11 microbiological laboratories and 38 chemistry laboratories hold certifications for one or more drinking water contaminants.

Finally, the SDWB continues to successfully implement the terms of the many drinking water rules for which it either has primary enforcement authority (primacy) or intends to apply for primacy. These include: the Total Coliform Rule, the Surface Water Treatment Rule, the LT1 and LT2 Enhanced Surface Water Treatment Rules, the Phase I Volatile Organic Chemical Rule, Phase II SOC/IOC Rule, the Phase V SOC/IOC Rule, Lead and Copper Rule, including Minor and Short-Term Revisions, Revised Public Notification Rule, Revised Radionuclides Rule, Consumer Confidence Rule, Filter Backwash Recycling Rule, Stage 1 and Stage 2 Disinfectant/Disinfection By-Products Rules, Arsenic and Clarifications Rule, and more.

3. Capacity Development Program

The program's capacity development program efforts for SFY 2009 were concentrated in the Technical Assistance Contract described in the Circuit Rider contract in the Small System discussion.

In addition, the SDWB sponsored small water system staff to attend the American Water Works Association Hawaii Section annual conference as described in the Small System discussion.

4. Testing of Drinking Water for Lead in Child Care Facilities

In SFY 2008, the SDWB contracted AMEC Earth and Environmental, Inc. to perform lead testing of tap water at all licensed child care facilities in Hawaii. With the assistance and cooperation of the Department of Human Services and child care facilities staff, AMEC sampled water from fixtures where children obtained drinking water and where food preparation water was supplied. The water samples were then collected and sent to Weck Laboratories (City of Industry, California) for analysis. The results and other supporting information were provided to facility staff and parents. Follow-up samples and additional actions were taken when lead concentrations exceeded twenty (20) parts per billion (ppb), in accordance with the recommendations contained in the U.S. EPA's 3 T's for Reducing Lead in Drinking Water in Child Care Facilities.

AMEC completed the statewide sampling in SFY 2009 and provided a report summarizing the program, including the total number of facilities by island that were sampled, the number of samples taken, and a breakdown of those samples with lead concentrations exceeding 20 ppb. The results of the testing found that elevated lead levels in drinking water in childcare facilities is not prevalent in Hawaii and the likelihood of children being exposed to lead in drinking water at childcare facilities is very low. The total contract cost is approximately \$910,000.

5. Operator Certification Program

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

From July 1, 2008 to June 30, 2009, the Board of Certification of Operating Personnel in Public Water Systems met four times. During this period:

- 102 Applications were received for certification review.
- 13 Reciprocal certifications were issued.
- 22 Persons were tested for the WTPO certification (Examinations were held on July 22-23, 2008 and January 27, 2009).
- 12 Persons passed the WTPO certification examination.
- 142 Persons were tested for the DSO certification (Examinations were held on October 28-30, 2008 and April 28, 2009).
- 50 Persons passed the DSO certification examination.
- 178 WTPO certifications were active as of June 30, 2009.
- 486 DSO certifications were active as of June 30, 2009.
- 24 Public water systems required to have level 1 certified water treatment plant operators by the level of the plant.
- 10 Public water systems required to have level 2 certified water treatment plant operators by the level of the plant.
- 5 Public water systems required to have level 4 certified water treatment plant operators by the level of the plant.
- 130 Public water systems with at least one distribution system operator certified at the level of the distribution system of the water system.

Local Assistance and Other State Programs (15%)

The SDWB has revised Hawaii's Wellhead Protection Program (WHP) Plan to include a Financial Assistance Program (FAP) that will allow the SDWB to provide funding/grants to public water systems for water protection planning and implementation protection projects and activities. Project grants have been awarded to the County of Maui, Department of Water Supply to implement a wellhead protection program (\$200,000/3 years). A grant to the Hawaii Nature Center-Maui to prepare a source protection plan and education program (\$50,000) was terminated for non-compliance with grant agreement. In spring 2008, notices were sent to all qualifying water systems that WHP-FAP grant funding was available for protection projects. SDWB staff is currently working with the Honolulu Board of Water Supply on possible WHP-FAP funding to implement groundwater protection projects as part of their Koolauloa and Waianae Watershed Management Plans, the Kauai Department of Water on possible WHP-FAP funding to incorporate source water/wellhead protection into the Kauai Water Use and Development Plan, and with private water systems to prepare and implement protection plan activities. The SDWB will also utilize the 15% DWSRF funding to create

Local and Wellhead Protection Workgroups, provide educational opportunities on protection for water systems, and begin the framework for creating State, Local, and Private Water System workgroups to develop and implement source water/wellhead protection activities.

D. CREDIT RISKS OF THE DWTRLF LOANS

The SRF program lacks the necessary resources to conduct a comprehensive drinking water 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 illustrates 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 DWTRLF recipients. The table shows the credit rating categories for these recipients. The General Obligation (G.O.) Bond credit agencies, Moody's and Fitch, gave every Hawaii board of water supply or water board a High Quality to Upper Medium Grade rating. In summary, the DOH feels that the credit pool of DWTRLF's loan portfolio has a high degree of solvency.

Table 3.

<u>Recipients</u>	<u>Committed Amount</u>	<u>Moody's/ Fitch Bond Rating</u>	<u>Percentage of DWTRLF Loan Portfolio</u>
City and County of Honolulu, Board of Water Supply	\$36,090,806.08	Aa3/AA-	36.9%
County of Hawaii, Water Board	13,776,846.59	A1/A+	14.1%
County of Maui, Board of Water Supply	20,641,294.00	Aa2/AA	21.1%
County of Kauai, Board of Water Supply	<u>27,191,898.02</u>	Aaa/AAA	<u>27.9%</u>
Totals	\$97,700,844.69		100.0%

E. OTHER INFORMATION

This report was prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and Reporting Requirements requested by EPA.

Independent Audit: The accounting firm of Accuity LLP was selected by the DOH to perform a financial audit of the DWTRLF Program's activities for SFY 2009. Although the activities and financial statements for fiscal year 2009 are unaudited as of the date of this report, Accuity LLP did perform an annual financial audit of the DWTRLF Program for SFY 2008.

The auditor's report for the SFY 2008 DWTRLF financial statement was published on November 24, 2008 and reissued on May 20, 2009. The audit report reads, *"In our opinion, the Fund complied, in all material respects, with the requirements governing types of activities and types of service and types of costs allowed or unallowed; matching; level of effort or earmarking requirements; special reporting requirements; special tests and provisions; and claims for advances and reimbursements that are applicable to its major Federal financial assistance program for the year ended June 30, 2008. We noted certain matters that we have reported to the Auditor and management of the Fund in a separate letter dated November 24, 2008."*

The auditor's report for SFY 2009 will be completed and published sometime in November 2009.

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

ATTACHMENT I

**DRINKING WATER TREATMENT REVOLVING LOAN
FUND**

PROJECTS RECEIVING SRF ASSISTANCE

DRIINKING WATER TREATMENT REVOLVING LOAN FUND PROJECTS RECEIVING SRF ASSISTANCE

Actual Binding Commitments

No.	Final Agreement Date	Project Description (Project Name - Based on the Final Loan Agreement)	Rate	Loan Amount
1	11/15/1999	213-0001 Kamole Water Treatment Plant	1.55%	\$ 7,840,087.00
2	7/15/2001	130-0001 Waimea Treatment Plant Upgrades-Phase II [Interim 11/15/00]	1.37%	739,210.00
3	7/15/2001	410-0001 Damage Repairs to Kokolau Tunnel [Interim 11/15/00]	1.37%	1,663,201.02
4	10/15/2001	101-0001 Saddle Road Well "A" [Interim 11/15/00]	1.37%	1,610,048.59
5	4/15/2002	133-0001 Kukuihaele Well "A" (Replace Waiulili Spring) [Interim 7/15/01]	1.01%	334,240.00
6	4/15/2002	139-0001 Makapala Well (Replace Murphy Tunnel) [Interim 7/15/01]	1.01%	1,442,301.00
7	4/15/2002	109-0001 Pahala Well "B" (Replace Alii Tunnel) [Interim 7/15/01]	1.01%	2,425,000.00
8	4/15/2002	107-0001 Kaieie Mauka (Replace Kaieie & Papaikou Springs) [Interim 7/15/01]	1.01%	2,245,936.00
9	4/15/2002	406-0001 Kekaha Well (Kapilimao Well) [Interim 7/15/01]	1.01%	862,882.74
10	7/15/2003	404-0001 Rehabilitation of 27" Steel Pipe, Hanapepe-Eleele Water System [Interim 5/15/02]	0.99%	691,134.00
11	7/15/2003	404-0002 Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well #3 [Interim 5/15/02]	0.99%	1,243,976.74
12	3/15/2004	413-0002 Wailua Homesteads Well No. 3 [Interim 7/15/03]	0.54%	397,736.50
13	1/15/2005	410-0005 Rehabilitate Lihue Steel Tanks 1 & 2 [Interim 7/15/03]	0.46%	1,243,017.00
14	1/15/2005	413-0005 Ornellas 0.2 MG Tank Refurbish [Interim 7/15/03]	0.58%	809,398.00
15	12/15/2004	331-0002 Waimanalo Well III [Interim 3/15/04]	0.10%	2,251,700.00
16	8/15/2005	335-0004 Pailani Street Water System Improvements [Interim 8/15/05]	0.00%	2,790,658.33
17	8/15/2005	413-0006 16 inch Waterline Replacement along Kuhio Highway, Leho Drive to North Papaloa Road, Wailua, Kauai, Hawaii [Interim 1/15/05]	0.16%	2,305,093.02
18	9/15/2005	333-0001 California Avenue Water System Improvements, Parts II and III [Interim 4/15/05]	0.31%	4,288,963.00
19	9/15/2005	335-0003 Ewa Shaft Granular Activated Carbon (GAC) Treatment Facility [Interim 3/15/04]	0.10%	13,000,184.75
20	11/15/2005	335-0002 Kunia Wells II-Nitrate Treatment Facility [Interim 3/15/04]	0.10%	6,029,374.00
21	1/15/2007	408-0002 Poipu Road 16 inch Main Replacement [Interim 1/15/05]	0.16%	5,158,885.83
22	2/15/2007	105-0001 Honomu Well "A" (Replace Akaka Falls Spring) [Interim 12/15/03]	0.41%	4,373,944.00
23	3/15/2007	213-0003 Kamole Weir Water Treatment Facility Clear Well Replacement [Interim 1/15/05]	0.15%	10,907,123.00
24	3/15/2008	331-0018 Pearl City Water System Improvements [Interim 5/15/07]	0.01%	1,433,476.00
25	3/15/2008	331-0024 Alewa Water System Improvements [Interim 5/15/07]	0.01%	2,674,532.00
26	3/15/2008	331-0025 Liliha Water System Improvements, Phase B [Interim 5/15/07]	0.01%	2,148,391.00
27	2/15/2009	214-0009 Napili Well "A" Site Improvements [2/15/09]	0.37%	1,894,084.00
28	3/15/2009	400-0001 Stable 1.0 MG Tank & Connecting Waterline [Interim 1/15/08]	0.26%	8,082,619.17
29	4/15/2009	154-0001 Hakalau Spring Improvement [4/15/09]	0.62%	606,167.00
30	5/15/2009	331-0031 Oahu Ave and Huelani Drive 8-inch Mains [Interim 5/15/08]	0.36%	1,473,527.00
TOTAL FINAL PROJECTS				\$ 92,966,890.69

DRIINKING WATER TREATMENT REVOLVING LOAN 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	8/15/2008	406-0003 Kapilimao 0.5 MG Tank	0.42%	\$ 4,733,954.00
TOTAL INTERIM PROJECTS				<u>\$ 4,733,954.00</u>
TOTAL FINAL & INTERIM PROJECTS				97,700,844.69

Planned (Future) Interim Binding Commitments

(Project Description ("New" Project Names - Based on the Priority List)

<u>Project Description ("New" Project Names - Based on the Priority List)</u>	<u>Proposed Loan Amount</u>
331-0024 Alewa Water System Improvements (Adj. Only-from final to Suppl.)	\$ (8,496.00)
335-0002 Kunia Wells II-Nitrate Treatment Facility (Adj. Only-Project postponed)	(5,634,319.80)
213-0003 Kamole Weir Water Treatment Facility Clear Well Replacement (Adj. Only-Design Allowance Deob)	(285,334.86)
406-0003 Kapilimao 0.5 MG Tank (Adj. Only-from interim to final)	(688,062.80)
406-0005 Kaumuali'i Highway 12-inch Main Replacement Elepaio Road to Huakai Road, Job No. 05-04, KW-27, Kekaha-Waimea, Kaua'i, Hawaii	4,933,117.00
434-0003 Waha, Wawae, and Niho Roads Main Replacement, Job No. 05-07, K-07, LO-13, at Kalaheo, Kaua'i, Hawaii	2,118,618.00
413-0007 Pipeline Replacement, Kapaa Homesteads	10,346,733.00
130-0004 Waimea Water Treatment Plant Sludge Drying Beds	3,504,018.00
415-0002 Haena Steel Tank and Wainiha Booster Pump Renovation (HW-02 & HW-03)	1,973,319.00
129-0001 Halaula Well	2,549,664.00
133-0002 Kapulena Well Development, Phase 1 (Exploratory Phase)	5,290,119.00
406-0007 Job 05-01, KW-16, Waimea Main Replacement	4,044,824.00
413-0008 Wailua Houselots Main Replacement, Ph I and II	5,766,530.00
133-0001 Kukuihaele Production Well and Supporting Facilities	2,735,626.00
106-0001 Kulaimano Production Well and Supporting Facilities	<u>2,894,958.00</u>
TOTAL PLANNED (FUTURE) COMMITMENTS	<u>\$ 39,541,312.54</u>
TOTAL FINAL, INTERIM, & PLANNED PROJECTS	137,242,157.23

ATTACHMENT 2

STATEMENT OF NET ASSETS

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF NET ASSETS

	<u>June 30, 2009</u>	<u>(Revised) June 30, 2008</u>
ASSETS		
Current Assets		
Cash and cash equivalents in State Treasury (note C)	\$ 25,993,903.57	\$ 21,227,344.83
Due from other fund	-	-
Accrued Interest (note D)	56,365.76	55,502.73
Accrued Interest from Investment	-	109,038.44
Accrued Loan Fees, program (note D)	156,638.68	161,093.76
Accrued Loan Fees, non-program (note D)	374,016.47	305,767.72
Due from state treasury (note B)	265,207.16	-
Due from federal government	20,677.37	408,850.14
Current maturities of loans receivable (note D)	<u>3,482,402.33</u>	<u>2,927,592.06</u>
Total Current Assets	30,349,211.34	25,195,189.68
Loans Receivable, net of current maturities (note D)	53,036,980.94	46,735,528.15
Capital Assets		
Office Equipment (notes B and F)	1,071,472.60	1,078,920.44
Less: Accumulated Depreciation (notes B and F)	<u>(799,106.80)</u>	<u>(721,425.50)</u>
Total Office Equipment	272,365.80	357,494.94
Transportation Equipment (notes B and F)	47,233.06	47,233.06
Less: Accumulated Depreciation (notes B and F)	<u>(47,233.06)</u>	<u>(47,233.06)</u>
Total Transportation Equipment	<u>-</u>	<u>-</u>
Total Capital Assets	<u>272,365.80</u>	<u>357,494.94</u>
TOTAL ASSETS	<u><u>\$ 83,658,558.08</u></u>	<u><u>\$ 72,288,212.77</u></u>
LIABILITIES & NET ASSETS		
Current Liabilities		
Payroll Payable	\$ 25,073.92	\$ 40,755.13
Accounts Payable	122,807.65	237,715.44
Accrued Vacation, current portion (note B)	<u>13,472.80</u>	<u>10,345.56</u>
Total Current Liabilities	161,354.37	288,816.13
Accrued Vacation, net of current portion (note B)	35,896.22	38,225.18
Other Post-employment Benefits (note B and H)	<u>34,892.00</u>	<u>34,892.00</u>
Total Liabilities	232,142.59	361,933.31
Net Assets		
Invested in capital assets	272,365.80	357,494.94
Restricted	83,154,049.69	71,568,784.52
Unrestricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>83,426,415.49</u>	<u>71,926,279.46</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 83,658,558.08</u></u>	<u><u>\$ 72,288,212.77</u></u>

The accompanying notes are an integral part of this statement.

ATTACHMENT 3

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

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

	Year Ended	
	June 30, 2009	(Revised) June 30, 2008
REVENUES		
Interest earnings from Loans (note B)	\$ 229,315.56	\$ 232,078.42
Administration loan fee earnings, program (note B)	479,261.94	580,414.87
Administration loan fee earnings, non-program (note B)	1,295,504.38	891,389.04
Total Revenues	2,004,081.88	1,703,882.33
EXPENSES BY PROGRAM ACTIVITIES		
Administrative Cost - 4% set-aside	418,847.15	535,324.25
Admin. Technical Assistance - 4% set-aside	-	-
State Program Management - 10% set-aside	631,302.62	1,239,867.39
Source Water Protection - 10% set-aside	-	-
Capacity Development - 10% set-aside	-	-
Operator Certification - 10% set-aside	8,322.83	10,346.28
Small Systems Technical Assistance - 2% set-aside	336,891.84	313,339.13
Water Protection Program - 15% set-aside	-	-
Wellhead Protection Program - 15% set-aside	46,769.07	44,193.08
Technical or Financial Assistance - 15% set-aside	15,436.27	-
Admin Loan Fee - Program	-	49.85
Admin Loan Fee - Non Program	-	-
Total Expenses	1,457,569.78	2,143,119.98
OPERATING INCOME	546,512.10	(439,237.65)
NON-OPERATING REVENUES		
Federal contribution	8,704,715.43	9,918,777.48
State matching contribution	1,671,000.00	1,671,000.00
Interest earnings from Investment (note B)	577,908.50	312,835.00
Other Income	-	-
Total Non-operating Revenues	10,953,623.93	11,902,612.48
CHANGE IN NET ASSETS	11,500,136.03	11,463,374.83
Net assets - beginning of year	71,926,279.46	60,462,904.63
Net assets - end of year	\$ 83,426,415.49	\$ 71,926,279.46

The accompanying notes are an integral part of this statement.

ATTACHMENT 4
STATEMENT OF CASH FLOWS

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

Cash flows from operating activities:	
Interest income from loans	\$ 228,452.53
Admin Loan Fees	1,710,972.65
Principal repayments on loans	3,128,123.46
Disbursement of loan proceeds	(9,984,386.52)
Personnel costs	(420,187.60)
Payments to vendors	<u>(1,076,775.72)</u>
Net cash flows used in operating activities	(6,413,801.20)
Cash flows from noncapital financing activities:	
Net cash flows provided by noncapital financing activities	<u>10,763,888.20</u>
Cash flows from capital and related financing activities:	
Purchase of equipment	<u>(5,268.04)</u>
Net cash flows provided by capital and related financing activities	(5,268.04)
Cash flows from investing activities:	
Interest from investments	<u>421,739.78</u>
Net cash flows provided by investing activities	421,739.78
NET INCREASE IN CASH	4,766,558.74
Cash Balance at July 1, 2008	<u>21,227,344.83</u>
Cash Balance at June 30, 2009	<u>\$ 25,993,903.57</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 546,512.10
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	90,397.18
Changes in assets and liabilities:	
Increase in interest receivable on loans	(863.03)
Increase in administrative fee receivable on loans	(63,793.67)
Increase in accrued salaries and other administrative costs	(129,790.72)
Increase in other post-employment benefits	-
Increase in loans receivable	<u>(6,856,263.06)</u>
Net cash provided by operating activities	<u>\$ (6,413,801.20)</u>

The accompanying notes are an integral part of this statement.

ATTACHMENT 5

NOTES TO FINANCIAL STATEMENTS

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A - ESTABLISHMENT AND PURPOSE OF THE DWTRLF

The Safe Drinking Water Act Amendments (SDWA) of 1996 (the Act) authorized the Environmental Protection Agency (EPA) to make capitalization grants to the states for the purpose of providing loans and other types of financial assistance to public water supply systems for drinking water infrastructure.

The Act also authorized the states to set aside funding for prevention programs and administration of the Fund, provided that the amount of funding did not exceed thirty-one percent (31%) of the annual capitalization grant as follows:

1. Up to fifteen percent (15%) may be used to provide local assistance and other state programs.
2. Up to four percent (4%) may be used to cover the costs of program administration.
3. Up to ten percent (10%) may be used for Public Water System Supervision (PWSS) program activities and other initiatives of the SDWA.
4. Finally, up to two percent (2%) may be used to support small systems technical assistance activities.

To receive the federal capitalization grants, the 1997 State of Hawaii Legislature established the Drinking Water Treatment Revolving Loan Fund (DWTRLF). The DWTRLF is intended to provide loans in perpetuity to public drinking water systems for construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final loan agreement date, whichever is later. The Fund is administered by the Safe Drinking Water Branch, Environmental Management Division of the Department of Health (DOH), State of Hawaii.

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

June 30, 2009

NOTE B - ACCOUNTING POLICIES

I. Financial Statement Presentation

The financial statements are intended to present the financial position and results of operations of only that portion of the funds of the DOH, State of Hawaii that is attributable to the transactions of the DWTRLF.

The accompanying financial statements of the DWTRLF have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB).

In June 1999, the GASB issued Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This Statement established new financial reporting requirements for state and local governments and required new information as well as restructuring much of the information that governments presented in the past. GASB also required additional statements in conjunction with Statement 34 (e.g., Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments: Omnibus, and Statement 38, Certain Financial Statement Note Disclosures). The DOH implemented these standards in fiscal year 2002.

2. Measurement Focus and Basis of Accounting

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

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

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

June 30, 2009

NOTE B - ACCOUNTING POLICIES (continued)

2. Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the DWTRLF are interest income and administrative loan fees on loans made to county governments. Federal grants, state matching funds, and interest income from investments are reported as non-operating income.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is management's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Capital Assets

Capital assets, which includes equipment, are reported in financial statements. Management capitalizes equipment if the cost is in excess of \$5,000 and the useful life exceeds one year.

Purchased capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Depreciation expense is recorded in the financial statements. The straight-line method is utilized over the assets' estimated useful life. Generally, the useful life used for equipment is three to seven years.

4. Administration Costs

The accompanying financial statements do not reflect certain administration costs incurred which are paid for by other sources of funding from the DOH. These costs include the DOH and State's overhead which the DOH does not assess to the SRF.

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

June 30, 2009

NOTE B - ACCOUNTING POLICIES (continued)

5. Fund Accounts

The DWTRLF consists of the State Revolving Fund (SRF) and non-SRF activity. The SRF activity consists exclusively of the state match, federal capitalization grant loans, principal loan repayments, and interest from loans and investments. Non-SRF activity consists of administration loan fees and federal set aside funds.

6. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Accrued Vacation

Employees earn vacation leave at a rate of 14 hours for each month of service. Vacation leave can be accumulated up to a maximum of 720 hours at the end of the calendar year and is convertible to pay upon termination of service.

8. Accumulated Sick Leave

Sick leave accumulates at a rate of 14 hours for each month of service without limit, but may be taken only in the event of an illness and is not convertible to pay upon termination of employment. However, an employee who leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System (ERS). At June 30, 2009, accumulated sick leave was approximately \$78,900.00.

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

June 30, 2009

NOTE B - ACCOUNTING POLICIES (continued)

9. Other Post-employment Benefits (OPEB)

The State provides post-retirement health care and life insurance benefits to qualified retirees classified as other post-employment benefits (OPEB). OPEB costs are measured and disclosed using the accrual basis of accounting. From an accrual accounting perspective, the cost of OPEB should be associated with the periods in which the exchange of salaries and benefits for employee services occur, rather than with the periods when benefits are paid or provided.

GASB 45 requires state and local government employers to move from accounting for OPEB costs from a pay-as-you-go basis to an accrual basis for the actuarially determined annual OPEB cost. The OPEB liability is the long-term financial obligation allocated to the DWTRLF.

10. Due from State Treasury (see NOTE C)

The State Director of Finance may invest any monies of the State which in the Director's judgement are in excess of the amounts necessary for meeting the immediate requirements of the State. Currently, cash used for investments are pooled together with other State agencies and departments.

The DWTRLF typically receives investment interest earnings monthly from the State Investment Pool System. However, for SFY 2009, a portion of the earnings were unallocated and is due from the state treasury.

Investment interest earnings for February 2009 was received in September 2009 and earnings for March through June 2009 were estimated. These earnings are included in the amount "due from state treasury."

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

June 30, 2009

NOTE C - CASH AND CASH EQUIVALENTS

All monies of the DWTRLF are deposited into the State Treasury. The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Effective August 1, 1999, cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool System. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

Investments are categorized to give an indication of the level of risk assumed by the DWTRLF. Category 1 includes investments that are insured or for repurchase agreements, collateralized by underlying securities that are so held. Category 2 includes uninsured and unregistered investments for which the broker-dealer in the DWTRLF's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker-dealer but not in the DWTRLF's name.

For SFY 2008, the State Director of Finance and the Department of General Accounting and General Services (DAGS) invested SRF monies in auction rate securities collateralized by student loans issued by the federal government. The auctions failed and investors have taken significant losses. The auction failures have been attributable to inadequate buyers and or buying demand for the securities. The securities will be auctioned periodically until the auction succeeds, the issuer calls the securities, they mature, or the State is able to sell the securities to third parties.

It was discovered that there was no market for these investments and the State is unable to liquidate these Student Loan investments. As a result, DAGS and the auditors determined that the value of the Student Loan investments had declined significantly and decided to record the write-down and pass the losses on to the affected departments.

During 2008, the State recorded an impairment adjustment of \$114,043,000 to reduce the carrying value of the State's auction rate securities to their fair value at June 30, 2008.

In May 2009, the SRF program made an accounting adjustment to cash for the SFY 2008 financial statements due to the Student Loan auction rate securities invested by the Director of Finance.

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE C - CASH AND CASH EQUIVALENTS (continued)

The investment pool consists of a diverse portfolio and departments were receiving investment interest earnings in SFY 2008 and part of 2009 because the other investments realized interest earnings.

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

June 30, 2009

NOTE D - LOANS RECEIVABLE

At June 30, 2009, the DWTRLF had outstanding loan receivables with the following government entities:

Nine loans with the City & County of Honolulu, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.

\$ 23,314,880.65

Eight loans with the County of Hawaii, Water Board; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.

\$ 8,154,507.27

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

June 30, 2009

NOTE D - LOANS RECEIVABLE (continued)

Ten loans with the County of Kauai, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.

\$12,131,966.05

Three loans with the County of Maui, Board of Water Supply; due in semiannual payments, including interest commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.

\$12,918,029.30

Total

\$56,519,383.27

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

June 30, 2009

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:

SFY2010	\$ 3,482,402.33
SFY2011	\$ 3,507,681.36
SFY2012	\$ 3,525,013.75
SFY2013	\$ 3,543,227.46
SFY2014	\$ 3,560,969.20
Thereafter	<u>\$38,900,089.17</u>
	\$56,519,383.27

As of June 30, 2009, accrued interest receivable, accrued administration loan fee receivable - program income, and accrued administration loan fee receivable - non-program income on loans totaled \$56,365.76, \$156,638.68, and \$374,016.47, 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, 2009, the DWTRLF has committed to make additional loans to the following government entities:

City & County of Honolulu, Board of Water Supply	\$ -
County of Hawaii, Water Board	-
County of Kauai, Board of Water Supply	4,733,954.00
County of Maui, Board of Water Supply	<u>-</u>
Total	\$ 4,733,954.00

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

June 30, 2009

NOTE E - FEDERAL FUNDING AND STATE MATCH

The DWTRLF is capitalized by grants from EPA authorized by Section 1452 of the Safe Drinking Water Act (the Act) with matching funds from the State. As of June 30, 2009, EPA has awarded \$99,939,500.00 to the State, of which \$61,353,266.04 has been drawn down for loans and set asides. The State has also legislated matching funds of \$19,987,900.00, of which \$18,413,085.59 has been committed.

Table 4 summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2009:

Table 4.

Budget Period	FFY	Amount	DWTRLF Cash Draws	EPA Draws (deducted prior to issuance of cap grant)	Funds Available
12/05/97 - 06/30/06	97	\$ 12,558,800.00	\$ 12,558,800.00	\$ -	\$ -
09/24/98 - 09/30/08	98	\$ 7,121,300.00	\$ 7,121,300.00	\$ -	\$ -
02/04/00 - 09/30/07	99	\$ 7,463,800.00	\$ 7,463,800.00	\$ -	\$ -
02/26/01 - 06/30/08	00	\$ 7,757,000.00	\$ 7,682,000.00	\$ 75,000.00 ¹	\$ -
09/01/02 - 09/30/08	01	\$ 7,789,100.00	\$ 7,765,100.00	\$ 24,000.00 ²	\$ -
10/01/03 - 06/30/11	02	\$ 8,052,500.00	\$ 7,056,238.60	\$ -	\$ 996,261.40
04/01/04 - 06/30/11	03	\$ 8,004,100.00	\$ 4,933,933.91	\$ -	\$ 3,070,166.09
10/01/05 - 06/30/13	04	\$ 8,303,100.00	\$ 4,666,666.45	\$ -	\$ 3,636,433.55
09/01/06 - 06/30/16	05	\$ 8,285,500.00	\$ 2,105,427.08	\$ 2,500.00 ³	\$ 6,177,572.92
07/01/07 - 06/30/17	06	\$ 8,229,300.00	\$ -	\$ -	\$ 8,229,300.00
03/01/08 - 06/30/17	07	\$ 8,229,000.00	\$ -	\$ -	\$ 8,229,000.00
03/01/09 - 06/30/18	08	\$ 8,146,000.00	\$ -	\$ -	\$ 8,146,000.00
		\$ 99,939,500.00	\$ 61,353,266.04	\$ 101,500.00	\$ 38,484,733.96

¹ The contract amounts for Northbridge (\$25,000) and Cadmus (\$50,000) were deducted from the set-asides (4% and 10%, respectively) FFY2000 cap grant. The \$75,000 was deducted prior to the issuance of the cap grant. Therefore, the \$75,000 shows up in EPA's records and not in FAMIS.

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

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

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

June 30, 2009

NOTE E - FEDERAL FUNDING AND STATE MATCH (continued)

Table 5 summarizes the State match funds for each EPA capitalization grant awarded to the DWTRLF. The list shows the federal fiscal year (grant year), source of state funds, and dollar amount of state match for each EPA capitalization grant as of June 30, 2009.

Table 5.

Federal Fiscal Year	Source of State Funds	20% State Match Amount
97	Act 328/97	\$ 2,511,760.00
98	Act 116/98	\$ 1,424,260.00
99	Act 091/99	\$ 1,492,760.00
00	Act 091/99	\$ 28,400.00
	Act 281/00	\$ 1,523,000.00
	Total 00 Match	\$ 1,551,400.00
01	Act 328/97	\$ 603,240.00
	Act 259/01	\$ 954,580.00
	Total 01 Match	\$ 1,557,820.00
02	Act 177/02	\$ 1,011,500.00
	Act 259/01	\$ 596,420.00
	Act 091/99	\$ 1,840.00
	Act 116/98	\$ 740.00
	Total 02 Match	\$ 1,610,500.00
03	Act 200/03	\$ 1,061,320.00
	Act 177/02	\$ 539,500.00
	Total 03 Match	\$ 1,600,820.00
04	Act 41/04	\$ 1,110,940.00
	Act 200/03	\$ 549,680.00
	Total 04 Match	\$ 1,660,620.00
05	Act 178/05	\$ 1,157,040.00
	Act 41/04	\$ 500,060.00
	Total 05 Match	\$ 1,657,100.00
06	Act 160/06	\$ 1,141,900.00
	Act 178/05	\$ 503,960.00
	Total 06 Match	\$ 1,645,860.00
07	Act 160/06	\$ 519,100.00
	Act 213/07	\$ 1,126,700.00
	Total 07 Match	\$ 1,645,800.00
08	Act 158/08	\$ 1,084,900.00
	Act 213/07	\$ 544,300.00
	Total 08 Match	\$ 1,629,200.00
	Total 20% State Match	\$ 19,987,900.00

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)
June 30, 2009

NOTE F - EQUIPMENT

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

	Balance at <u>July 1, 2008</u>	SFY 2009		Balance at <u>June 30, 2009</u>
		<u>Increases</u>	<u>Decreases</u>	
Equipment	\$1,126,153.50	\$ 5,268.04	\$12,715.88	\$1,118,705.66
Accumulated Depreciation	768,658.57	(90,397.17)	(12,715.88)	(846,339.86)
	<u>\$ 357,494.93</u>	<u>(\$85,129.13)</u>	<u>\$ -</u>	<u>\$ 272,365.80</u>

NOTE G - RELATED PARTY TRANSACTIONS

As of June 30, 2009, there were no funds advanced.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

NOTE H – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, Session Laws of Hawaii (SLH) of 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan, effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The State also contributes to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006. HSTA VEBA provides health benefits only to HSTA members, retirees, and their dependents. Both EUTF and HSTA VEBA plans currently provide medical, drug prescription, dental, vision, chiropractic, and group life insurance benefits. The EUTF and HSTA VEBA issues annual financial reports that are available to the public by writing to:

EUTF at 201 Merchant Street, Suite 1520, Honolulu Hawaii 96813
HSTA VEBA at 1350 South King Street, Suite 230, Honolulu Hawaii 96814

Funding Policy

The State's base contribution levels to EUTF are established by statutes while the contribution levels to the HSTA VEBA are determined under collective bargaining agreements. In both plans, the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The contributions for the DWTRLF for the years ended June 30, 2009, 2008 and 2007 approximated \$27,900, \$20,800, and \$9,600, respectively.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

NOTE H – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (continued)

State Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the State’s policy on the accounting and reporting for OPEB is to allocate a portion of the State’s ARC, interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s Comprehensive Annual Financial Report (CAFR). The basis for the allocation is the proportionate share of contributions made by each component unit or proprietary fund for retiree health benefits.

Allocated OPEB Cost

The following table shows the components of the annual OPEB cost that have been allocated to the DWTRLF for the years ended June 30th:

	<u>2009</u> ¹	<u>2008</u>
Annual required contribution	\$ 0	\$55,714
Interest on net OPEB obligation	0	0
Adjustment to annual required contribution	0	0
Annual OPEB cost	0	55,714
Contributions made	0	(20,822)
Increase in net OPEB obligation	0	34,892
Net OPEB obligation, beginning of year	34,892	0
Net OPEB obligation, end of year	\$34,892	\$34,892

¹ OPEB amounts for SFY 2009 was not provided at the time this report was completed.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

NOTE H – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (continued)

The following table summarizes the annual OPEB cost, percentage of annual OPEB cost contributed, and net OPEB obligation for the years ending June 30, 2009 and 2008:

	<u>2009</u> ¹	<u>2008</u>
Annual OPEB cost	\$ 0	\$55,714
Percentage of annual OPEB cost contributed	0.00%	37.40%
Net OPEB obligation, end of year	\$34,892	\$34,892

Required Supplementary Information and Disclosures

Additional information related to the State's health care and insurance benefit plans, including additional OPEB disclosures and required supplementary information is available at the statewide level in the State's CAFR at the following website:

<http://hawaii.gov/dags/accounting-division/Annual%20Financial%20Report>

¹ OPEB amounts for SFY 2009 was not provided at the time this report was completed.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

NOTE I – REVISIONS TO THE FINANCIAL STATEMENTS

The financial statements for SFY 2008 were revised due to additional information received for the DWTRLF's OPEB obligation and investment write-down allocation.

OPEB Obligation In December 2008, the Department of Accounting and General Services (DAGS) allocated OPEB costs for the year ended June 30, 2008 to component units and proprietary funds that are reported separately in stand alone reports. The DWTRLF had a net OPEB obligation at June 30, 2008 of \$34,892.

Investment Write-down Allocation In April 2009, DAGS issued an accounting adjustment market decline policy to all departments and agencies that issue stand alone reports. Accounting adjustments were made to cash in the state treasury to reflect a write-down of the State's investments, which are presented in the State's financial statements, to fair value. This write-down is related to Auction Rate Securities (ARS) held in the State's investment pool as of June 30, 2008. The DWTRLF had an impairment adjustment of \$585,333 at June 30, 2008.

The following tables summarize the changes made due to the financial statement revisions:

STATEMENT OF NET ASSETS	As Originally Reported June 30, 2008	As Revised June 30, 2008	Adjustments
ASSETS			
Current Assets			
Cash and cash equivalents in State Treasury	\$21,812,678.00	\$21,227,344.83	(\$585,333.17)
Total Current Assets	25,780,522.85	25,195,189.68	(585,333.17)
TOTAL ASSETS	72,873,545.93	72,288,212.76	(585,333.17)
LIABILITIES AND FUND BALANCE			
Other Post-employment Benefits	0.00	34,892.00	34,892.00
Total Liabilities	327,041.31	361,933.31	34,892.00
Net Assets			
Restricted	72,189,009.69	71,568,784.52	(620,225.17)
Total Net Assets	72,546,504.62	71,926,279.45	(620,225.17)
TOTAL LIABILITIES AND NET ASSETS	72,873,545.93	72,288,212.76	(585,333.17)

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

NOTE I – REVISIONS TO THE FINANCIAL STATEMENTS (continued)

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS	As Originally Reported	As Revised	
	June 30, 2008	June 30, 2008	Adjustments
EXPENSES BY PROGRAM ACTIVITIES			
Administrative Cost - 4% set-aside	\$500,432.25	\$535,324.25	\$34,892.00
Total Expenses	2,108,227.98	2,143,119.98	34,892.00
OPERATING INCOME	(404,345.65)	(439,237.65)	(34,892.00)
NON-OPERATING REVENUE			
Interest earnings from investment	898,168.17	312,835.00	(585,333.17)
Total Non-operating Revenues	12,487,945.65	11,902,612.48	(585,333.17)
CHANGE IN NET ASSETS	12,083,600.00	11,463,374.83	(620,225.17)
Net assets - end of year	72,546,504.62	71,926,279.45	(620,225.17)
STATEMENT OF CASH FLOWS	As Originally Reported	As Revised	
	June 30, 2008	June 30, 2008	Adjustments
Cash Flows from investing activities:			
Interest from investments	\$951,221.48	\$365,888.31	(\$585,333.17)
Net cash flows provided by investing activities	951,221.48	365,888.31	(585,333.17)
NET INCREASE IN CASH	3,728,890.66	3,143,557.49	(585,333.17)
Cash Balance at June 30, 2008	21,812,678.00	21,227,344.83	(585,333.17)
Reconciliation of operating income to net cash provided by operating activities:			
Operating Income	(404,345.65)	(439,237.65)	(34,892.00)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in other post-employment benefits	0.00	34,892.00	34,892.00