

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

**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**

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STATE OF HAWAII  
DEPARTMENT OF HEALTH  
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WASTEWATER BRANCH  
DECEMBER 2009**

# TABLE OF CONTENTS

	<u>Page No.</u>
<b>OPERATIONS &amp; ADMINISTRATION SECTION</b>	
A. Introduction	1
B. Executive Summary	1
C. Major Initiatives	3
D. Goals and Accomplishments	7
E. Environmental Benefits of Projects	12
F. Compliance Issues	12
<b>FINANCIAL SECTION</b>	
A. Internal Controls	13
B. Accomplishments of the Program	13
C. Program Activities	16
D. Credit Risks of the WPCRF Loans	18
E. Other Information	20
<b>LIST OF ATTACHMENTS:</b>	
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, 2008 to June 30, 2009 and describes how the Water Pollution Control Revolving Fund (WPCRF) has met its goals and objectives as identified in the Intended Use Plan (IUP) and Capitalization Grant Application. This report also discusses the sources and uses of the funds during SFY 2009.

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 20th 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 2009

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

- Executed eight (8) final loan agreements with a total project value of \$30.3 million;
- Executed one (1) interim loan agreement with a total estimated project value of \$5.2 million;
- Executed five (5) supplemental loan agreements with a total estimated project value of \$12.3 million;
- Continued to work on four (4) interim loan agreements with a total estimated value of \$19.9 million;
- Continued to work with all counties on seven (7) potential future projects with a total estimated value of \$49.5 million. These, we anticipate will become future loan projects;
- Continued to work with all counties on finalizing interim loans from prior years;
- Serviced 76 interim and final loans with an estimated value of \$524.9 million;
- Loaned to the counties 95% of the total funds available;
- Received the 2009 Pisces Award;
- Applied for the FFY 2009 capitalization grant funds from EPA; and
- Requested and received the State's 20% match of approximately \$1.6 million from the Legislature.

## **Major Changes Made During SFY 2009**

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

- During SFY 2009, most of the SRF positions within the Wastewater Branch were filled. An accountant position was vacant on December 22, 2008 but was filled on April 20, 2009;
- 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 and federal enforcement actions on Large Capacity Cesspool (LCC), there was a very high demand for SRF loans. The utilization rate was above 90%; 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 2010**

The Hawaii Council on Revenues projects a decline in tax revenues for SFY 2010. However, the program does not see any indication of an adverse impact to our loan making capabilities to our four counties. Manpower resources will continue to be a problem for the program as more workload is added to the program due to administration and implementation of the American Recovery & Reinvestment Act (ARRA). It will definitely increase monitoring and reporting requirements and EPA may also impose additional requirements on the program.

### **The following major activities will be conducted in SFY 2010:**

- Continuing to service existing loans;
- Administer and implement the ARRA funds;
- Receiving the FFY 2009 Federal Capitalization (CAP) Grant from EPA;
- Submitting a request to the 2010 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;
- Continue 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 2010; 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 2009:

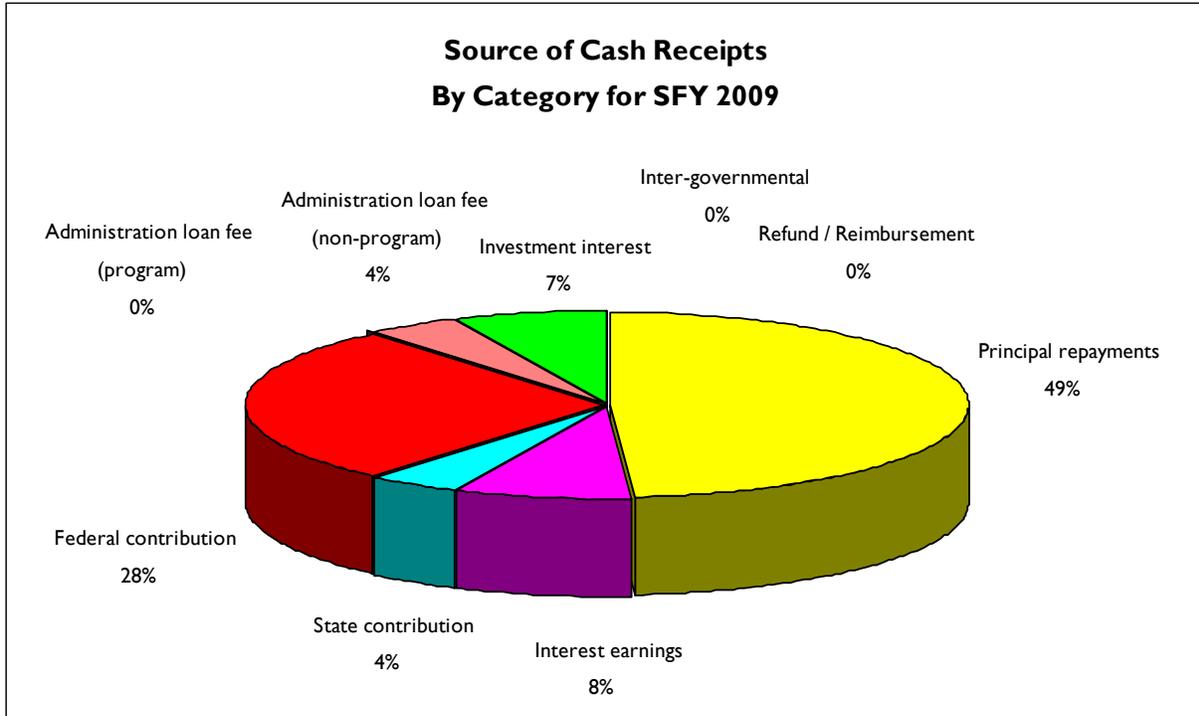
a. Funds withdrawn from the federal Automated Standard Application for Payments (ASAP) system:	\$12,143,088.22
b. State match funds for the FFY 2008 Federal Capitalization Grant provided by the 2008 Hawaii State Legislature pursuant to Act 158/08:	\$ 1,655,000.00
c. State match funds distributed:	\$ 3,335,380.00
d. Loans executed:	
Eight Final Loan Agreements:	\$30,330,428.94
One Interim Loan Agreement:	5,193,140.94
Five Supplemental Loan Agreements:	<u>12,321,058.61</u>
Total Loans Executed:	\$47,844,628.49
e. Principal repayments received:	\$21,036,413.94
f. Interest repayments received:	\$ 3,607,101.64

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 2009.

Graph I.



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

<u>County</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Kauai	Lihue Wastewater Treatment Plant Digester Repair (Executed 9/15/08)	Senate District 7 House District 15	\$ 5,193,140.94
TOTAL INTERIM LOAN AGREEMENTS			\$ 5,193,140.94

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

<u>County</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Maui	Central Maui Landfill Gas Collection and Flare Construction (Executed 7/15/08)	Senate District 6 House District 12	\$ 3,662,324.00

<u>County</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Maui	Wailuku-Kahului Wastewater Reclamation Facility Electrical and Solids Modifications (Executed 8/15/08)	Senate District 4 House District 9	\$ 2,000,000.00
Maui	Countywide Pump Station Renovations (Executed 9/15/08)	Senate District 4 House District 9	\$ 997,670.00
Maui	Lahaina Wastewater Pump Station No. 1 Modifications (Executed 9/15/08)	Senate District 5 House District 10	\$ 7,050,000.00
Kauai	Lihue Wastewater Treatment Plant Digester Repair (Executed 9/15/08)	Senate District 7 House District 15	\$ 5,193,140.94
Maui	Islandwide EPA Consent Decree Sewer Rehabilitation (Executed 10/15/08)	Senate District 6 House District 10	\$ 7,679,840.00
Maui	Molokai Integrated Solid Waste Facility Phase 3 Disposal Cell and Drainage Improvements (Executed 1/15/09)	Senate District 6 House District 13	\$ 3,300,000.00
Maui	Front Street Sewer Line Rehabilitation (Executed 1/15/09)	Senate District 5 House District 10	\$ 447,454.00
TOTAL FINAL LOAN AGREEMENTS			\$30,330,428.94

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

<u>County</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Maui	Kahului Wastewater Pump Station Modification (Executed 1/15/09)	Senate District 4 House District 9	\$ 2,623,957.00
Maui	Lahaina Wastewater Pump Station Nos. 5 and 6 Forcemain Replacement (Executed 1/15/09)	Senate District 5 House District 10	\$ 3,300,000.00
Kauai	Waimea Wastewater Treatment Plant Effluent Disposal System (Executed 2/15/09)	Senate District 7 House District 16	\$ 2,058,817.00
Hawaii	Kalaniana'ole Highway Interceptor Sewer Rehabilitation (Executed 2/15/09)	Senate District 1 House District 2	\$ 1,615,980.00
Kauai	Lihue Wastewater Treatment Plant Effluent Disposal System (Executed 3/15/09)	Senate District 7 House District 15	\$ 2,722,304.61
TOTAL SUPPLEMENTAL LOAN AGREEMENTS			\$12,321,058.61

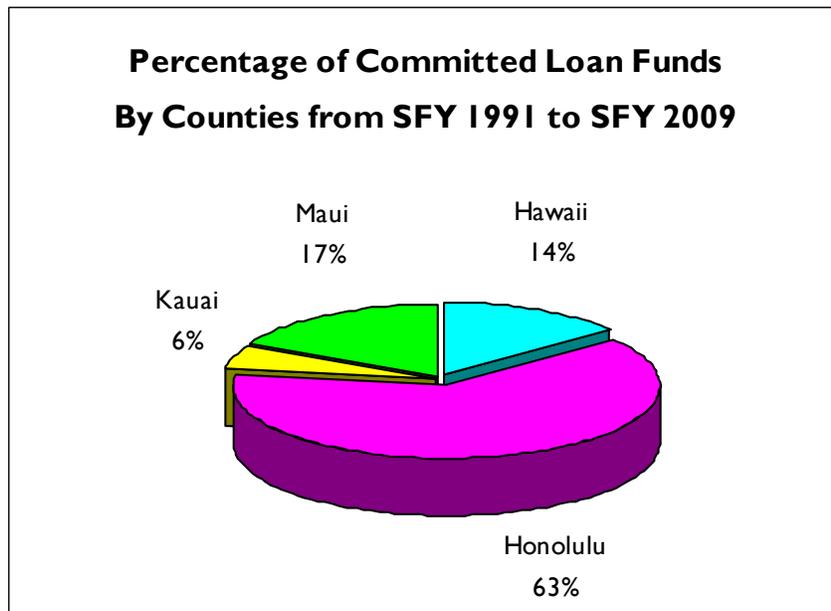
d. The following WPCRF projects were awarded Interim Loan Agreements in previous fiscal years and continues to be processed for Final Loan Agreements:

<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 1 House District 1	\$ 1,282,600.00
Hawaii	North Kona Sewer and Effluent Reuse (Executed 7/15/07)	Senate District 3 House District 6	\$ 6,747,000.00

<u>County</u>	<u>Project Description</u>	<u>Project Location</u>	<u>Loan Amount</u>
Hawaii	Honokaa Large Capacity Cesspool Conversion (Executed 8/15/07)	Senate District 1 House District 1	\$10,163,172.00
Maui	Hyatt/Kaanapali Force Main Replacements (Executed 3/15/08)	Senate District 5 House District 10	\$ 1,750,000.00
TOTAL LOAN AGREEMENTS IN PROCESS			\$19,942,772.00

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 Hawaii's Intended Use Plan (IUP) which is prepared annually and made available for public comment and review. In May 2008, Hawaii issued its IUP for State Fiscal Year (SFY) 2009. The initial IUP was later amended in April 2009 to incorporate projects selected for funding by the **American Recovery and Reinvestment Act of 2009** and to include program goals promoting green and/or sustainable infrastructure, water and energy efficiency, reduction of greenhouse gas

emissions, and other environmentally innovative activities. Following are the program goals set forth in the SFY 2009 IUP and the progress made in achieving these goals.

Long-Term Goals:

1. The WPCRF Program will provide financial assistance to fund eligible projects that help achieve compliance with federal and state water quality standards, protect Hawaii's public health and environment from point and non-point sources of water pollution, conserve water resources by safely recycling and reusing wastewater effluent, and promote green infrastructure, sustainable infrastructure, water and energy efficiency, reduction of greenhouse gas emissions, or other environmentally innovative activities.

The program continues to successfully fund projects that help Hawaii and its counties comply with water quality standards, protect public health, and recycle and reuse treated wastewater effluent. Focus has also been directed to promoting green and sustainable infrastructure, energy and water efficiency, and the reduction of greenhouse gas emissions, as evident in the project descriptions that follow.

2. The WPCRF Program shall ensure fiscal soundness and perpetuity of the state revolving fund.

Careful tracking of loans, regular cash flow projections, and meticulous accounting continue to ensure the program's fiscal soundness and perpetuity. During the past fiscal year, receipt of an EPA capitalization grant and state matching funds, as well as the finalization of eight loan agreements, totaling more than 30 million dollars, contributed to the program's continued success.

Short-Term Goals:

1. The WPCRF Program shall continue to seek federal and state funds by pursuing annual EPA capitalization grants and matching appropriations from the Hawaii State Legislature in order to maintain the program's viability.

The program applied for and received an EPA capitalization grant and matching funds from the State Legislature on July 2008 and September 2008, respectively.

2. Fund projects intended to remedy documented non-compliant water quality issues, control point source and non-point source pollution sources, address issues such as watershed restoration, storm water runoff, cesspool and septic system contamination, injection wells, animal waste, solid waste landfills, underground storage tanks, and Brownfield sites, as well as projects that conserve and safely recycle wastewater effluent.



- Funding of the **Islandwide EPA Consent Decree Sewer Rehabilitation** project assisted the County of Maui in satisfying the 1999 EPA Consent Decree to increase reliability of its sewer collection system and decrease future sewer spills and sewer collection system failures.

- The **Lihue Wastewater Treatment Plant Digester Repair** project involved the cleaning and repair of the primary and secondary digesters and associated covers, one of which is shown at right. The project also included replacement of pumps, mixing nozzles, valves, alarms, and controls.



- The **Central Maui Landfill Gas Collection and Flare Construction** was built to extract landfill gas to prevent its migration to the atmosphere, ground and surface waters. Since project completion, several companies have expressed interest in harvesting the methane for a gas to energy facility which will promote energy efficiency, sustainable infrastructure, and the reduction of greenhouse gas emissions.





- The **Molokai Integrated Solid Waste Facility Phase 3 Disposal Cell and Drainage Improvements** will control non-point source pollution with installation of an 80 mm thick high density polyethylene (HDPE) liner and leachate collection system to prevent landfill leachate from entering ground water or surrounding water bodies.

- The **Front Street Sewer Line Rehabilitation** project was necessitated by chloride tests indicating that the sewer line had a significant amount of salt water intrusion, contributing to a high chloride concentration at the Lahaina Wastewater Reclamation Facility which produces recycled water. The interior of the sewer was lined with cured in-place pipe to correct the problem.



- The **Lahaina Wastewater Pump Station No. 1 Modifications** project included rehabilitation of various pumping, piping and electrical components as well as construction of a new 30-inch force main from the pump station to the Lahaina Wastewater Reclamation Facility which produces recycled water used by golf courses in the area.

3. Fund and promote projects incorporating **green infrastructure**, sustainable infrastructure, water and energy efficiency, reduction of greenhouse gas emissions, and other environmentally innovative activities.

- The design phase of the County of Maui's **Countywide Pump Station Renovations** project included preparation of plans and specifications for rehabilitating seven pump stations, including replacement of corroded components such as the wetwell shown at right. In addition, the old existing pumps will be replaced with energy-efficient pumps which guarantee a 20% energy savings.



- The **Wailuku-Kahului Wastewater Reclamation Facility Electrical and Solids Modifications** project upgraded plant components and relocated electrical controls to an elevated, enclosed room, shown at left. This promotes sustainable infrastructure in the event of tsunamis or flooding and adaptation for coastline inundation.

4. Provide loans with interest rates competitive with other financing options available to eligible applicants while still assuring that the SRF 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 the current recession and an attractive interest rate of 0.5%, a high demand for loans continues to exist. 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 fiscal soundness, perpetuity, and continued program success.

5. Update program policies and information management practices as necessary to continually improve program effectiveness and efficiency.

Efforts are made to improve program effectiveness by streamlining instructions, forms, and required submittal whenever possible, updating the program website with current information, and communicating with loan applicants on a regular basis.

## **E. ENVIRONMENTAL BENEFITS OF PROJECTS**

A “one-pager” describing environmental benefits was completed for each project entering into a binding commitment with the WPCRF program during SFY 2009 in order to satisfy requirements of EPA Order 5700.7.

## **F. COMPLIANCE ISSUES**

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 2009 was made available for public review and comment, published in May 2008, 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, 2009. 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 \$208,640,748<sup>1</sup> in federal capitalization grants of which, \$203,836,999.27 has been allocated for WPCRF loan funds.

#### 2. State Match:

Pursuant to Act 158/08, the 2008 Hawaii State Legislature appropriated \$1,655,000.00 in general obligation bond funds for the required state match to the FFY 2008 EPA SRF Capitalization Grant. The state match was transferred to the WPCRF's account in September 2008.

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<sup>1</sup> As of June 30, 2009, the WPCRF program has not received its capitalization grant for FFY 2009, totaling \$5,223,500.

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 committed \$200,161,483.27 of federal capitalization grant funds and \$41,398,824.67 of state match funds to WPCRF projects. 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 \$480,131,982.61 or 99.3% of all federal funds available since inception of the program. The program also has another \$34,157,989 in pending commitments which, when executed, will bring the total binding commitment percentage to 106.4%.

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 2004, 2005, 2006, 2007, 2008 and 2009 were: 57%, 54%, 68%, 88%, 97%, and 95%, 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 WPCRF's percentages for Disbursements as a Percentage of Assistance, based on NIMS, for 2004, 2005, 2006, 2007, 2008, and 2009 were: 99%, 99%, 74%, 70%, 63%, and 76%, 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 \$12,143,088.82 of EPA Capitalization Grant funds from the ASAP payment system during the SFY 2009. 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 2009, DOH received \$17,874,168.32 (402) from principal from repayments of federal loans, \$3,150,963.58 (403) from interest from repayments of federal loans, \$3,162,245.62 (406) principal from repayments from state loans, \$456,138.06 (407) from interest from repayments of state loans, and \$2,987,158.61 from investment interest.

For SFY 2010, the program is projected to receive principal and interest repayments and investment interest of \$21,038,715.77, \$3,177,430.93, and \$4,417,962.40, 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	51%	5%
Services	49%	23%
Supplies	53%	23%
Equipment	10%	17%

For SFY 2009, 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.

	<u>Total Procurement Amount</u>	<u>Amount Awarded to MBE</u>	<u>Percentage of MBE Utilization</u>	<u>Amount Awarded to WBE</u>	<u>Percentage of WBE Utilization</u>
All Services	\$ 70,595.63	\$ 956.56	1.4%	\$ 2,225.50	3.2%
Construction	\$ 19,321,878.51	\$ -	0.0%	\$ -	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. Pena, 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**

The highlights of the program activities are as follows:

#### **Program Activities:**

1. The program completed a priority list, developed the SFY 2010 Intended Use Plan, and prepared the capitalization grant application.
2. The program serviced seventy-six (76) interim and final WPCRF loan agreements totaling \$524.9 million.

3. The program reviewed planning documents (including the preliminary engineering reports, plans and specifications, environmental assessment documents, and federal requirement documents) for five (5) projects.
4. The program executed one (1) interim, eight (8) finals, and five (5) supplemental loan agreements for \$5,193,140.94, \$30,330,428.94 and \$12,321,058.61, respectively.
5. The program conducted thirty-one (31) construction inspections of ongoing WPCRF projects under construction.

#### Administration Loan Fees and Administration Cost (4%)

The State does not contribute any money towards administering the WPCRF Program and its water-related activities. To pay for employee salaries and benefits and comply with Federal law, the DOH implemented a loan fee program in January 1997.

For SFY 2009, the WPCRF collected \$41,143.59 in administration loan fees - program income and \$1,831,646.09 in administration loan fees - non-program income; operating expenses totaled \$1,434,786.67.

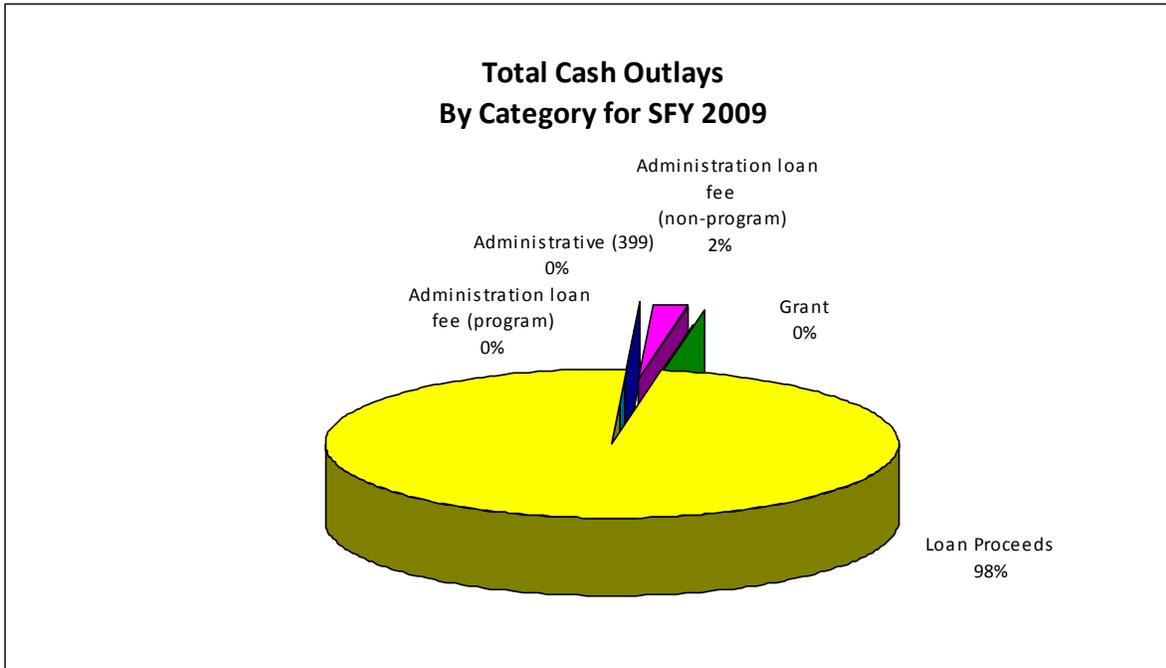
Furthermore, Federal law requires that the WPCRF program be operated in perpetuity.

#### Loan Disbursement

The WPCRF program disbursed \$76,012,544.55 in loan funds in SFY 2009. Of this amount, \$12,143,088.82 was drawn from federal funds and resulted in the closure of four capitalization grants (FFY 2003, 2004, 2005, and 2006).

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, the Construction Operation section conducted 119 operational and maintenance inspections of various public and private wastewater treatment facilities throughout the State. The section also inspected 50 aerobic treatment units [ATU] in SFY 2009.

**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 &amp; 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 and rating categories for our four WPCRF 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	Aa3/AA-	62.8%
County of Hawaii	74,174,378.64	A1/A+	14.1%
County of Maui	87,683,740.86	Aa2/AA	16.7%
County of Kauai	<u>33,567,956.62</u>	Aaa/AAA	<u>6.4%</u>
Totals	\$524,922,810.63		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 2009. Although the activities and financial statement for fiscal year 2009 are unaudited as of the date of this report, Accuity, LLP did perform an annual financial audit of the WPCRF Program for SFY 2008.

The auditor's report for the SFY 2008 WPCRF 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.

**ATTACHMENT I**

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

## WATER POLLUTION CONTROL REVOLVING FUND PROJECTS RECEIVING SRF ASSISTANCE

### Actual Binding Commitments

Binding Commitment			Rate	Loan Amount
No.	Date	Project Description (Project Name - Based on Final Loan Agreement)		
1	03/01/1991	70-16 Kailua Sewage Treatment Plant Modification, Ph. 2	2.50%	\$ 8,184,015.00
2	03/01/1991	70-18 Kaneohe Sewage Treatment Plant Modification, Ph. 2	2.50%	1,061,464.00
3	03/01/1991	68-28 Miomio Wastewater Pump Station and Force Main	2.50%	1,303,134.00
4	03/01/1991	62-09 Hilo Wastewater Treatment & Conveyance Project, Ph II, Schedule D, G, & H	2.50%	12,724,311.00
5	04/16/1991	55-02 Kapaa Sewer System, Phase I	2.50%	2,654,640.00
6	04/19/1991	54-04 Lahaina Wastewater Reclamation Facility Expansion	2.50%	500,000.00
7	08/01/1993	54-05 Lahaina Wastewater Reclamation Facility Expansion	2.57%	7,381,497.00
8	08/01/1991	62-05 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)	2.98%	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%	1,615,980.00
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%	2,623,957.00
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%	2,722,304.61
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%	2,058,817.00
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 Wanaao 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
65	07/15/2008	NPS52-39 Central Maui Landfill Gas Collection and Flare Construction (Interim 08/15/07)	0.50%	3,662,324.00
66	08/15/2008	52-32 Wailuku-Kahului Wastewater Reclamation Facility Electrical and Solids Modifications (Interim 11/15/07)	0.50%	2,000,000.00
67	09/15/2008	52-28 Countywide Pump Station Renovations (Interim 11/15/07)	0.50%	997,670.00
68	09/15/2008	54-06 Lahaina Wastewater Pump Station No. 1 Modifications (Interim 11/15/07)	0.50%	7,050,000.00
69	09/15/2008	59-15 Lihue Wastewater Treatment Plant Digester Repair (Interim 09/15/08)	0.50%	5,193,140.94
70	10/15/2008	52-31 Islandwide EPA Consent Decree Sewer Rehabilitation (Interim 11/15/07)	0.50%	7,679,840.00
71	01/15/2009	NPS41-07 Molokai Integrated Solid Waste Facility Phase 3 Disposal Cell and Drainage Improvements (Interim 01/15/08)	0.50%	3,300,000.00
72	01/15/2009	54-11 Front Street Sewer Line Rehabilitation (Interim 03/15/08)	0.50%	447,454.00

TOTAL FINAL PROJECTS

\$ 504,980,038.63

## 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	NPS72-00 Honokaa Large Capacity Cesspool Conversion	0.50%	10,163,172.00
4	03/15/2008	54-25 Hyatt/Kaanapali Force Main Replacements	0.50%	1,750,000.00
TOTAL INTERIM PROJECTS				\$ 19,942,772.00
TOTAL FINAL & INTERIM PROJECTS				\$ 524,922,810.63

### Planned (Future) Interim Binding Commitments

<u>Project Description ("New" Project Names - Based on Priority List)</u>	<u>Proposed Loan Amount</u>
NPS62-10 Hawaii County Cesspool Conversion Project (Adjust. Only - From Final to Supp. - deob.)	\$ (544,262.47)
55-05 Wailua/Kapaa Sewer System Improvements (Adjust. Only - From Final to Supp. - deob.)	(623,164.98)
59-16 Marriott Wastewater Pump Station Improvements (Adjust. Only - From Final to Supp. - deob.)	(515,366.55)
62-19 Komohana Heights Large Capacity Cesspool Replacement (Adjust. Only - From Interim to ARRA)	(1,282,600.00)
80-17 North Kona Sewer and Effluent Reuse (Adjust. Only - From Interim to Final)	(2,247,000.00)
NPS72-00 Honokaa Large Capacity Cesspool Conversion (Adjust. Only - From Interim to ARRA)	(10,163,172.00)
52-31 Islandwide EPA Consent Decree Sewer Rehabilitation (Adjust. Only - From Final to Supp.)	947,535.00
80-19 Queen Liliuokalani Large Capacity Cesspool Replacement	18,000,000.00
NPS90-04 Na'alehu Large Capacity Cesspool Conversion	5,714,925.00
51-70 Waimalu Sewer Rehabilitation/Reconstruction, Phase 1	6,000,000.00
NPS72-01 Honokaa Large Capacity Cesspool Conversion Phase 2: Wastewater Treatment Plant	6,000,000.00
47-04 Waimea Wastewater Treatment Plant Expansion, Phase I	4,651,995.00
NPS90-05 Pahala Large Capacity Cesspool Conversion	8,219,100.00
TOTAL PLANNED (FUTURE) COMMITMENTS	\$ 34,157,989.00
TOTAL FINAL, INTERIM & PLANNED PROJECTS	\$ 559,080,799.63

**ATTACHMENT 2**

**STATEMENT OF NET ASSETS**

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

	<u>June 30, 2009</u>	<u>(Revised) June 30, 2008</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents in State Treasury (note C)	\$ 127,697,024.35	\$ 161,842,802.88
Accrued Interest (note D)	764,508.09	1,119,175.99
Accrued Administrative Loan Fees, program (note D)	2,237.03	24,488.04
Accrued Administrative Loan Fees, non-program (note D)	397,921.92	568,474.43
Accrued interest on investments	-	833,045.93
Due from state treasury (note B)	1,431,878.26	-
Due from federal government	-	-
Current maturities of loans receivable (note D)	<u>20,844,288.82</u>	<u>18,702,181.64</u>
Total Current Assets	151,137,858.47	183,090,168.91
Loans Receivable, net of current maturities (note D)	232,113,654.22	179,279,630.79
Capital Assets		
Office Equipment (notes B and F)	38,597.93	54,840.98
Less: Accumulated Depreciation (notes B and F)	<u>(38,597.93)</u>	<u>(47,365.54)</u>
Total Capital Assets	<u>-</u>	<u>7,475.44</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 383,251,512.69</b></u>	<u><b>\$ 362,377,275.14</b></u>
 <b>LIABILITIES AND FUND BALANCE</b>		
Current Liabilities		
Payroll Payable	\$ 75,752.19	\$ 55,716.49
Accounts Payable	17,161.81	15,644.23
Accrued Vacation, current portion (note B)	<u>50,298.84</u>	<u>68,719.72</u>
Total Current Liabilities	143,212.84	140,080.44
Accrued Vacation, net of current portion (note B)	186,736.25	161,419.97
Other Post-employment Benefits (note B and G)	<u>143,401.00</u>	<u>143,401.00</u>
Total Liabilities	473,350.09	444,901.41
Net Assets		
Invested in Capital Assets	-	7,475.44
Restricted	382,778,162.60	361,924,898.29
Unrestricted	<u>-</u>	<u>-</u>
Total Net assets	<u>382,778,162.60</u>	<u>361,932,373.73</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 383,251,512.69</b></u>	<u><b>\$ 362,377,275.14</b></u>

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, 2009	(Revised) June 30, 2008
<b>REVENUES</b>		
Interest earnings from loans (note B)	\$ 3,252,433.74	\$ 3,294,900.10
Administration loan fee earnings, program (note B)	18,892.58	72,484.87
Administration loan fee earnings, non-program (note B)	1,661,093.58	1,511,025.62
Total Revenues	4,932,419.90	4,878,410.59
<b>EXPENSES</b>		
Administrative expenses for SRF activities	4,199.80	6,299.72
Administrative expenses for State activities, program	-	(4,916.84)
Administrative expenses for State activities, non-program	1,466,510.99	1,627,166.89
Total Expenses	1,470,710.79	1,628,549.77
OPERATING INCOME	3,461,709.11	3,249,860.82
<b>NON-OPERATING REVENUE</b>		
Federal contribution	12,143,088.82	8,834,588.66
State matching contribution	1,655,000.00	995,000.00
Interest earnings from investment (note B)	3,585,990.94	2,340,451.12
Inter government transfer	-	-
Total Non-operating Revenues	17,384,079.76	12,170,039.78
CHANGE IN NET ASSETS	20,845,788.87	15,419,900.60
Net assets - beginning of year	361,932,373.73	346,512,473.13
Net assets - end of year	\$ 382,778,162.60	\$ 361,932,373.73

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, 2009

Cash flows from operating activities:	
Interest income from loans	\$ 3,607,101.64
Administrative Loan Fees	1,872,789.68
Principal repayments on loans	21,036,413.94
Disbursement of loan proceeds	(76,012,544.55)
Personnel costs	(1,299,578.26)
Payments to vendors	<u>(135,208.41)</u>
Net cash flows used in operating activities	(50,931,025.96)
Cash flows from noncapital financing activities:	
Net cash flows provided by noncapital financing activities	<u>13,798,088.82</u>
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>2,987,158.61</u>
Net cash flows provided by investing activities	2,987,158.61
NET DECREASE IN CASH	(34,145,778.53)
Cash Balance at July 1, 2008	<u>161,842,802.88</u>
Cash Balance at June 30, 2009	<u><u>\$ 127,697,024.35</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,461,709.11
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	7,475.44
Changes in assets and liabilities:	
Decrease in interest receivable on loans	354,667.90
Decrease in administrative fee receivable on loans	192,803.52
Increase in accrued salaries and other administrative costs	28,448.68
Increase in other post-employment benefits	-
Increase in loans receivable	<u>(54,976,130.61)</u>
Net cash provided by operating activities	<u><u>\$ (50,931,025.96)</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, 2009

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, from 1989 to 1994, the State of Hawaii (State) received more than \$72.8 million in 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 \$208.6 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, 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 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, 2009

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, 2009

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

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE B - ACCOUNTING POLICIES (continued)

Employees' Retirement System (ERS). At June 30, 2009, accumulated sick leave was approximately \$729,200.00.

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 WPCRF.

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 WPCRF 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

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

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.

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

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE C - CASH AND CASH EQUIVALENTS (continued)

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.

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

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE D - LOANS RECEIVABLE

At June 30, 2009, 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.	\$155,584,878.79	\$ 4,532,851.60
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.	\$ 22,859,991.61	\$ 3,837,295.29

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE D - LOANS RECEIVABLE (continued)

	<u>SRF Activity</u>	<u>State Activity</u>
Twenty-one 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.	\$ 48,781,196.09	\$ 3,463,735.99
Nine 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.	\$ 8,986,771.54	\$ 4,911,222.13
Total	\$236,212,838.03	\$16,745,105.01

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE D - LOANS RECEIVABLE (continued)

Loans mature at various dates through 2029. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2010	\$ 20,844,288.82
SFY2011	21,431,808.28
SFY2012	21,771,693.08
SFY2013	22,138,230.03
SFY2014	19,620,704.18
Thereafter	<u>147,151,218.65</u>
	\$252,957,943.04

As of June 30, 2009, accrued interest receivable, accrued administration loan fee receivable as program income, and accrued administration loan fee receivable as non-program income on loans totaled \$764,508.09, \$2,237.03, and \$397,921.92, 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 WPCRFR 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>1,750,000.00</u>
Total	\$19,942,772.00

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

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, 2009, EPA has awarded \$208,640,748.00 to the State, of which \$198,969,063.34 has been drawn for loans and program administration expenses. The State has also legislated matching funds of \$41,728,150.67, of which \$41,398,824.67 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, 2009:

Table 4.

<u>Budget Period</u>	<u>FFY</u>	<u>Amount</u>	<u>Total Cash Draws</u>	<u>EPA Draws</u>	<u>Funds Available</u>
09/29/89 - 09/30/96	89	\$ 7,568,001.00	\$ 7,568,001.00	\$ -	\$ -
09/26/90 - 09/30/97	90	\$ 7,532,600.00	\$ 7,532,600.00	\$ -	\$ -
10/01/91 - 09/30/98	91	\$ 15,894,300.00	\$ 15,894,300.00	\$ -	\$ -
10/01/92 - 09/30/07	92	\$ 15,048,400.00	\$ 15,048,400.00	\$ -	\$ -
10/01/93 - 09/30/03	93	\$ 16,947,877.00	\$ 16,947,877.00	\$ -	\$ -
09/19/94 - 09/30/07	94	\$ 9,769,484.00	\$ 9,769,484.00	\$ -	\$ -
04/05/95 - 09/30/02	95	\$ 11,110,859.00	\$ 11,110,859.00	\$ -	\$ -
01/26/96 - 09/30/07	96	\$ 11,316,361.00	\$ 11,316,361.00	\$ -	\$ -
09/01/97 - 09/30/07	97	\$ 11,044,606.00	\$ 11,044,606.00	\$ -	\$ -
09/23/98 - 09/30/08	98	\$ 10,662,341.00	\$ 10,662,341.00	\$ -	\$ -
09/08/99 - 09/30/07	99	\$ 11,550,624.00	\$ 11,550,624.00	\$ -	\$ -
05/21/01 - 09/30/07	00	\$ 10,407,600.00	\$ 10,407,600.00	\$ -	\$ -
03/08/02 - 09/30/08	01	\$ 10,363,068.00	\$ 10,363,068.00	\$ -	\$ -
10/01/03 - 09/30/09	02	\$ 10,325,106.00	\$ 10,325,106.00	\$ -	\$ -
04/15/04 - 09/30/10	03	\$ 10,257,984.00	\$ 10,257,984.00	\$ -	\$ -
10/01/05 - 09/30/11	04	\$ 10,264,221.00	\$ 10,264,221.00	\$ -	\$ -
09/01/06 - 06/30/15	05	\$ 8,330,100.00	\$ 8,327,600.00	\$ 2,500.00	\$ -
07/15/07 - 06/30/17	06	\$ 6,750,716.00	\$ 6,750,716.00	\$ -	\$ -
03/01/08 - 06/30/17	07	\$ 8,273,000.00	\$ 3,452,310.34	\$ -	\$ 4,820,689.66
10/01/08 - 06/30/18	08	\$ 5,223,500.00	\$ 375,005.00	\$ -	\$ 4,848,495.00
		<u>\$ 208,640,748.00</u>	<u>\$ 198,969,063.34</u>	<u>\$ 2,500.00</u>	<u>\$ 9,669,184.66</u>

I \$2,500 for the EPA County workshop was deducted from the Admin fund prior to the issuance of the FFY 2005 cap grants. 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, 2009

NOTE E - FEDERAL FUNDING AND STATE MATCH (continued)

Table 5 below 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, 2009.

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	<u>\$ 311,586.33</u>
	Total 96 Match	\$ 2,263,272.00
97	Act 328/97	\$ 2,208,921.00
98	Act 116/98	\$ 2,132,468.67
99	Act 091/99	\$ 2,310,125.00
00	Act 281/00	\$ 2,081,520.00
01	Act 259/01	\$ 2,072,614.00
02	Act 177/02	\$ 2,065,021.00
03	Act 200/03	\$ 2,051,597.00
04	Act 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	<u>\$ 995,000.00</u>
	Total 07 Match	\$ 1,654,600.00
08	Act 158/08	<u>\$ 1,044,700.00</u>
	Total 20% State Match	<u>\$ 41,728,150.67</u>

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE F - EQUIPMENT

The following are the changes in equipment and accumulated depreciation during SFY 2009:

	Balance at <u>July 1, 2008</u>	<u>SFY 2009</u>		Balance at <u>June 30, 2009</u>
		<u>Increases</u>	<u>Decreases</u>	
Equipment	\$54,840.98	\$ -	\$16,243.05	\$38,597.93
Accumulated Depreciation	( 47,365.54)	( 7,475.44)	( 16,243.05)	( 38,597.93)
	<u>\$ 7,475.44</u>	<u>(\$7,475.44)</u>	<u>\$ -</u>	<u>\$ -</u>

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE G – 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 WPCRF for the years ended June 30, 2009, 2008 and 2007 approximated \$83,700, \$85,600, and \$65,500, respectively.

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE G – 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 WPCRF for the years ended June 30th:

	<u>2009</u> <sup>1</sup>	<u>2008</u>
Annual required contribution	\$ 0	\$228,977
Interest on net OPEB obligation	0	0
Adjustment to annual required contribution	0	0
Annual OPEB cost	<u>0</u>	<u>228,977</u>
Contributions made	0	(85,576)
Increase in net OPEB obligation	<u>0</u>	<u>143,401</u>
Net OPEB obligation, beginning of year	143,401	0
Net OPEB obligation, end of year	<u>\$143,401</u>	<u>\$143,401</u>

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

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE G – 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> <sup>1</sup>	<u>2008</u>
Annual OPEB cost	\$ 0	\$228,977
Percentage of annual OPEB cost contributed	0.00%	37.40%
Net OPEB obligation, end of year	\$143,401	\$143,401

*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>

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

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE H – REVISIONS TO THE FINANCIAL STATEMENTS

The financial statements for SFY 2008 were revised due to additional information received for the WPCRF'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 WPCRF had a net OPEB obligation at June 30, 2008 of \$143,401.

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 WPCRF had an impairment adjustment of \$4,621,763 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
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents in State Treasury	\$166,464,566.32	\$161,842,802.88	(\$4,621,763.44)
Total Current Assets	187,711,932.35	183,090,168.91	(4,621,763.44)
<b>TOTAL ASSETS</b>	<b>366,999,038.58</b>	<b>362,377,275.14</b>	<b>(4,621,763.44)</b>
<b>LIABILITIES AND FUND BALANCE</b>			
Other Post-employment Benefits	0.00	143,401.00	143,401.00
Total Liabilities	301,500.41	444,901.41	143,401.00
<b>Net Assets</b>			
Restricted	366,690,062.73	361,924,898.29	(4,765,164.44)
Total Net Assets	366,697,538.17	361,932,373.73	(4,765,164.44)
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>366,999,038.58</b>	<b>362,377,275.14</b>	<b>(4,621,763.44)</b>

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2009

NOTE H – REVISIONS TO THE FINANCIAL STATEMENTS (continued)

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS	As Originally Reported	As Revised	Adjustments
	June 30, 2008	June 30, 2008	
<b>EXPENSES</b>			
Administrative expenses for State activities, non-program	\$1,483,765.89	\$1,627,166.89	\$143,401.00
Total Expenses	1,485,148.77	1,628,549.77	143,401.00
OPERATING INCOME	3,393,261.82	3,249,860.82	(143,401.00)
<b>NON-OPERATING REVENUE</b>			
Interest earnings from investment	6,962,214.56	2,340,451.12	(4,621,763.44)
Total Non-operating Revenues	16,791,803.22	12,170,039.78	(4,621,763.44)
CHANGE IN NET ASSETS	20,185,065.04	15,419,900.60	(4,765,164.44)
Net assets — end of year	366,697,538.17	361,932,373.73	(4,765,164.44)
<b>STATEMENT OF CASH FLOWS</b>			
	As Originally Reported	As Revised	Adjustments
	June 30, 2008	June 30, 2008	
<b>Cash Flows from investing activities:</b>			
Interest from investments	\$7,510,800.55	\$2,889,037.11	(\$4,621,763.44)
Net cash flows provided by investing activities	7,510,800.55	2,889,037.11	(4,621,763.44)
NET INCREASE IN CASH	11,948,406.15	7,326,642.71	(4,621,763.44)
Cash Balance at June 30, 2008	166,464,566.32	161,842,802.88	(4,621,763.44)
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating Income	3,393,261.82	3,249,860.82	(143,401.00)
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>			
Increase in other Post-employment benefits	0.00	143,401.00	143,401.00