
Review of Revolving Funds, Trust Funds, and Trust Accounts for the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai'i

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Report No. 09-11
December 2009



THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. Financial audits attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. Management audits, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. Sunset evaluations evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. Sunrise analyses are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.
7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.
8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.
9. Special studies respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



THE AUDITOR

STATE OF HAWAII

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OVERVIEW

Review of Revolving Funds, Trust Funds, and Trust Accounts for the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai'i

Report No. 09-11, December 2009

Summary

Section 23-12, Hawai'i Revised Statutes, requires the State Auditor to review all existing revolving and trust funds every five years. The review is to include a five-year financial summary for each fund or account, an evaluation of the original intent and purpose of each fund or account, and a determination of the degree to which each fund or account achieves its stated and claimed purpose. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our fourth review of the revolving and trust funds, and trust accounts of the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai'i.

Revolving funds are often established with an appropriation of seed money from the general fund. Revolving funds must demonstrate the capacity to be self-sustaining. Activities financed by revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans. *Trust funds* invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. A pension fund is an example of a trust fund. *Trust accounts* are typically separate holding or clearing accounts for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

Of the 89 funds and accounts we reviewed this year, 54 were revolving funds, 18 were trust funds, and 17 were trust accounts. We used criteria developed by the Legislature as well as criteria developed by our office from a review of public finance and accounting literature. These funds must continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, a revolving fund must reflect a linkage between benefits sought and charges made upon users and also be an appropriate financial mechanism for the program or operation. A trust fund must also meet the statutory definition of a trust fund. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued.

Responses

We transmitted a draft of this review to the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai'i.

The Department of the Attorney General disagrees with our conclusion that the Antitrust Trust Fund does not meet the definition of a trust fund but does not provide a logical



explanation for its position. Moneys in the fund are used to support antitrust law enforcement programs and are not held for any specific persons or classes of persons with a vested beneficial interest or equitable ownership, even though these programs may benefit the public at large. The department also disagrees with our conclusion that the Criminal Forfeiture Revolving Fund does not meet all four criteria of a revolving fund, as there is no direct linkage between the benefits sought and the charges made upon users of the program. The department stated the fund meets the linkage criteria as the program is funded by criminal forfeitures, which are really charges assessed on the criminals, who are “users” of the criminal justice system. However, criminals whose property is seized received no benefits from this program.

The Department of Business, Economic Development & Tourism disagrees with our conclusion that the Hawai‘i Community-Based Economic Development (CBED) Revolving Fund is not self-sustaining and that the grant and technical assistance programs do not demonstrate a direct link between benefits sought and user charges as there are no user fees or charges. The department explains in detail why the fund is self-sufficient and that administrative fees *can* be charged on grants and loans. However, in a questionnaire completed as part of our review, the department stated “the CBED Revolving Fund is not financially self-sustaining. Administrative expenses and salaries are funded from General Funds.” The department also disagrees with our conclusion and recommendation regarding the Brownfields Cleanup Revolving Loan Fund. This is perplexing as we draw no conclusions and make no recommendations regarding this fund due to the lack of financial activity during the five-year period under review, which ended June 30, 2009.

The department also disagrees with several findings related to funds administered by the Hawai‘i Housing Finance and Development Corporation (HHFDC). For two funds, the department disputes our conclusions that the funds do not meet all the respective criteria as their programs at least meet legislative intent. However, in addition to meeting legislative intent, the funds must meet other criteria, including the fund-type definition. Revolving funds must have a clear link between benefits sought and charges made upon users, and trust funds must have a designated person or classes of persons with a vested beneficial interest. The failure of these funds to meet these criteria is unaddressed in the department’s response.

The department further identifies six additional funds administered by HHFDC that it states should not have been included in our review as they are special funds, not revolving funds as reported by us. However, each of these funds is classified as a revolving fund within the State’s general ledger system and is therefore included in our review. Additionally, even if these *administratively* established funds were truly special funds, our finding that they were improperly established still applies as state laws require that revolving funds *and* special funds can be established only by an act of the Legislature.

The University of Hawai‘i did not disagree with any of our findings. The university submitted details of the corrective actions it plans to take which appear to be appropriate.

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A Report to the
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Submitted by

THE AUDITOR
STATE OF HAWAI'I

Report No. 09-11
December 2009

Foreword

This is a report of our review of revolving funds, trust funds, and trust accounts used by or administratively attached to the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai‘i.

Section 23-12, Hawai‘i Revised Statutes, requires the State Auditor to review all existing revolving and trust funds every five years. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our fourth review of the revolving funds, trust funds, and trust accounts of the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai‘i.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai‘i.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

This report reviews the revolving funds, trust funds, and trust accounts of the Departments of the Attorney General and Business, Economic Development & Tourism and the University of Hawai‘i. Section 23-12, Hawai‘i Revised Statutes (HRS), requires the State Auditor to review all revolving or trust funds administered by each state department every five years. This is our fourth review of the revolving funds, trust funds, and trust accounts of the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai‘i. The first report conducted in 1994 (Report No. 94-19) reviewed 49 revolving funds, trust funds, and trust accounts. The second report conducted in 2000 (Report No. 00-07) reviewed 82 revolving funds, trust funds, and trust accounts. The third report conducted in 2004 (Report No. 04-13) reviewed 92 revolving funds, trust funds, and trust accounts. In this report, we reviewed 54 revolving funds, 18 trust funds, and 17 trust accounts.

Background

In 1990, the Legislature, through Act 240, Session Laws of Hawai‘i (SLH) 1990, required our office to conduct a review of all special and revolving funds and to recommend whether they be continued, modified, or repealed. The Legislature was concerned that the proliferation of these types of funds had diverted resources from the general fund and, as a result, had weakened the Legislature’s control over public moneys. Moneys deposited into and spent from special and revolving funds are not subject to an equivalent level of legislative scrutiny as those in the general fund.

The review of special and revolving funds required by Act 240, SLH 1990, was completed and presented in five separate reports issued in 1991 and 1992. We reviewed 166 special and revolving funds and recommended that 70 funds be repealed, discontinued, or allowed to sunset. We also found that many funds held cash balances far in excess of program needs and recommended that unneeded cash be transferred to the general fund.

In July 2001 the reports were updated through Report No. 01-12, which found that 71 special and revolving funds had been repealed or discontinued. However, a majority (106 out of 166) of the funds previously reviewed were still in existence as of July 1, 1999.

Section 23-12, HRS, expands the concept of Act 240, SLH 1990, by requiring our office to review each revolving and trust fund at least once every five years. The section specifies that the review is to include, but not be limited to:

1. An evaluation of the original intent and purpose of each fund, both as expressed by the Legislature and as understood by the expending agency;
2. An assessment of the degree to which each fund achieves its stated and claimed purposes;
3. An evaluation of the fund's performance standards established by the agency; and
4. A summary statement reflecting total fund transactions in the preceding five fiscal years, including the fund balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund and the ending fund balance for each fiscal year.

Description of Revolving Funds, Trust Funds, and Trust Accounts

Revolving funds

Section 37-62, HRS, defines a revolving fund as:

a fund from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds.

Revolving funds are often established with an appropriation of seed money from the general fund. Activities commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and are then replenished through the repayment of loans. For example, the State Motor Pool Revolving Fund purchases and maintains the State's fleet of motor vehicles and is replenished by charges to state agencies for the use of the vehicles.

Trust funds

Section 37-62, HRS, defines a trust fund as:

a fund in which designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.

Trust funds invoke a fiduciary responsibility of state government to care for and use the assets held only for those designated to benefit from the funds. A pension fund is one example of a trust fund. Contributions and payments into the fund are to be held for the beneficiaries of the pension fund. Another example is tenants' security deposits, which are held in trust funds for the future benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust accounts

The Department of Accounting and General Services defines a trust account as a separate holding or clearing account for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

**Criteria for
Reviewing
Revolving Funds,
Trust Funds, and
Trust Accounts**

The criteria we used to review revolving funds are similar to those used in past reviews. The criteria are the extent to which each fund:

- Continues to serve the purpose for which it was originally created;
- Reflects a clear link between the benefit sought and charges made upon the users or beneficiaries of the program, as opposed to serving primarily as a means to provide the program or users with an automatic means of support that is removed from the normal budget and appropriations process;
- Demonstrates the capacity to be financially self-sustaining; and
- Is an appropriate financing mechanism for the program or operation.

The first and second criteria were taken from Act 240, SLH 1990. Our office developed the third and fourth criteria from a review of public finance literature.

The criteria used to review trust funds are the extent to which each fund:

- Continues to serve the purpose for which it was originally created;
- Provides the benefits or services originally intended to the beneficiaries;
- Does not require general fund appropriations; and
- Meets the definition of a trust fund.

The first two criteria were derived from the initial objectives of Section 23-12, HRS, asking for (1) an evaluation of the original intent of each fund, and (2) the degree to which each fund achieves its stated purpose. The third criterion assesses whether the fund relies on general fund appropriations. If general fund appropriations are needed to finance its activities (as opposed to providing seed moneys only), classification as a trust fund may not be warranted. The fourth criterion assesses whether the fund is held by the State only for the benefit of those with a vested interest in the assets.

Similar criteria are used for the review of trust accounts. These are the extent to which each account:

- Continues to serve the purpose for which it was originally created; and
- Does not require general fund appropriations.

We also reviewed any performance standards established by each agency for its funds and accounts.

Objectives of the Review

1. Identify and review all revolving funds, trust funds, and trust accounts of the Departments of the Attorney General and Business, Economic Development & Tourism and the University of Hawai‘i.
2. For each of these revolving funds, trust funds, and trust accounts, determine the original intent and purpose of the fund or account, both pursuant to statute and as understood by the agency, and determine the degree to which the fund or account achieves its stated and claimed purposes.
3. Evaluate fund performance standards established by the agencies, where applicable.

4. Provide a five-year (FY2004-05 to FY2008-09), unaudited financial summary for each fund or account reviewed.

Scope and Methodology

This report examines those revolving funds, trust funds, and trust accounts administered by the Departments of the Attorney General and Business, Economic Development & Tourism and the University of Hawai‘i during the five-year period under review.

We researched statutes, session laws, legislative history, and other supporting documents to determine each fund’s or account’s intent and purpose. We also reviewed performance standards reported by the agencies and other documents as appropriate. However, we found that a majority of funds and accounts did not have any performance standards.

To gain an understanding of fund operations, we obtained information from key fiscal and program personnel. In reviewing each fund or account, we applied the criteria previously defined in this chapter.

We also noted that ending balances for FY 2003-04 shown in our Report No. 04-13 financial summaries were estimates provided by the Departments of the Attorney General and Business, Economic Development & Tourism and the University of Hawai‘i, and therefore may not correspond to actual beginning balances for FY2004-05 presented in the financial summaries in this report. Transfers are reported as a net amount for each respective year.

Our review was performed from August 2009 to October 2009 according to generally accepted government auditing standards. We did not audit the agencies’ financial data; it is provided only for informational purposes.

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Chapter 2

Department of the Attorney General

This chapter presents the results of our review of four revolving funds, five trust funds, and seven trust accounts of the Department of the Attorney General. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and the conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first the funds established by statutory authority, followed by the accounts established under administrative authority, in alphabetical order.

Funds Established Under Statutory Authority

Antitrust Trust Fund, Section 28-13, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$233	\$374	\$292	\$424	\$255
Revenues	359	155	206	331	110
Interest	11	11	10	19	6
Expenditures	(121)	(45)	(9)	(5)	(13)
Transfers*	(108)	(203)	(75)	(514)	(110)
Ending Fund Balance	\$374	\$292	\$424	\$255	\$248
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers were made to the State of Hawai'i Treasury and various state agencies and represent distributions of judgment or settlement proceeds and reimbursements of expenditures.

This fund was established in 2001 for expenditures relating to the enforcement of antitrust laws, such as expenditures to facilitate participation in multi-state antitrust initiatives, related training, related equipment purchases, and the acquisition of related educational resources. This fund was initially funded by \$150,000 of general fund appropriations. Revenues include legislative appropriations and deposits of not more than 10 percent of any antitrust judgment or settlement received by the State. All unencumbered and unexpended moneys in excess of \$250,000 remaining on balance in the fund at the close of June 30 of each year shall lapse to the credit of the general fund. The fund continues to serve its original purpose. However, the fund does

not meet the definition of a trust fund as there are no designated persons or classes of persons having a vested beneficial interest or equitable ownership in the assets of the fund.

Child Support Enforcement Trust Fund (Not in State Treasury), Section 576D-10, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$8,749	\$7,017	\$7,017	\$7,515	\$11,580
Revenues	111,548	116,006	118,724	127,476	128,190
Interest	0	0	0	0	0
Expenditures	(113,280)	(116,006)	(118,226)	(123,411)	(129,273)
Transfers	0	0	0	0	0
Ending Fund Balance	\$7,017	\$7,017	\$7,515	\$11,580	\$10,497
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust account was established in 1986 to deposit and disburse court ordered child support payments. Revenues are derived from the collection of support payments. Beneficiaries of this account are the children and families in Hawai'i who are serviced by the agency. The fund meets the definition of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriation.

Criminal Forfeiture Revolving Fund, Section 712A-16(4), HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$477	\$264	\$155	\$312	\$579
Revenues	627	955	947	1,402	805
Interest	0	0	0	0	0
Expenditures	(365)	(362)	(364)	(372)	(283)
Transfers*	(475)	(702)	(426)	(763)	(492)
Ending Fund Balance	\$264	\$155	\$312	\$579	\$609
Encumbrances	\$0	\$1	\$0	\$0	\$0

*Transfers were made to the seizing agency for property seized and the prosecuting agency that prosecuted the forfeiture.

Created in 1988, this fund is used to pay for (1) expenses necessary to seize, detain, appraise, inventory, safeguard, maintain, advertise, or sell forfeited property and to reimburse federal, state, and county agencies for expenditures made to perform these functions; (2) awards for information leading to civil or criminal proceedings; (3) supplemental funds to state and county agencies for law enforcement purposes; (4) expenses in connection with training programs for law enforcement officers; and (5) expenses in connection with enforcement of the drug nuisance abatement unit. The fund accounts for one-half of the proceeds of cash and property forfeited due to criminally related activity.

We previously reviewed this fund in Report Nos. 92-11, 94-19, 95-22, 00-07, 01-12, and 04-13. In each report we determined that the fund continues to serve the purpose for which it was created and is financially self-sustaining since it does not require general fund appropriations. However, we have repeatedly determined that there is no clear, direct linkage between the benefits sought and charges made upon the users or beneficiaries of the program. Criminals whose property is seized receive no benefit from the property seizure and disposal and related efforts. As previously noted, this fund does not meet the established criteria for a revolving fund.

Criminal History Record Improvement Revolving Fund, Section 846-10.6, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$728	\$784	\$846	\$645	\$428
Revenues	1,041	1,042	1,002	1,182	1,302
Interest	20	24	32	26	8
Expenditures	(1,005)	(1,004)	(1,235)	(1,425)	(1,396)
Transfers	0	0	0	0	0
Ending Fund Balance	\$784	\$846	\$645	\$428	\$342
Encumbrances	\$353	\$553	\$458	\$191	\$88

This fund was established in 1995 to improve the criminal history record information systems by collecting fees from criminal history record checks, fingerprint-based searches, expungement of arrest records, and certification of documents. Beneficiaries of the fund include agencies, non-criminal justice users, and the general public that access and use criminal history information for purposes such as background checks on child care providers, school teachers, child protective services, parks and recreation workers, and prospective employees. A clear link exists

between the benefits sought and charges made upon users. The fund meets the definition of a revolving fund, as the fund is self-sustaining, is an appropriate financing mechanism for the program, and does not require any general fund appropriations.

Federal Community Restitution, Federal Title II Trust Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$15	\$0	\$0	\$3	\$3
Revenues	0	0	3	0	0
Interest	0	0	0	0	0
Expenditures	(15)	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$3	\$3	\$3
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust fund was established in 2001 for the receipt of restitution funds, as defined by the Antiterrorism and Effective Death Penalty Act of 1996, S. 735, Sec. 205-206 (PL 104-132). Funds are received when federal courts collect restitution from drug cases where there is no identifiable victim. The State receives 65 percent of the total restitution amount. The department uses these funds to restore communities victimized by drug crimes and to prevent further drug crimes. The fund meets the definition of a trust fund, as it continues to serve the purpose for which it was originally created and does not receive any general fund appropriations.

Hawai'i Criminal Justice Commission Trust Account, Section 28-10.6(a)(5), HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$6	\$4	\$4	\$3	\$3
Revenues	10	5	9	0	0
Interest	0	0	0	0	0
Expenditures	(12)	(5)	(10)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$4	\$4	\$3	\$3	\$3
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust account was established in 1985 for deposits of financial grants and donations for crime research, training, prevention, and education activities undertaken by the Hawai'i Criminal Justice Commission. The commission was sunsetted in 1990 and the staff and program functions were incorporated into the Crime Prevention and Justice Assistance Division of the Department of the Attorney General. Revenues include foundation grants, donations, and registration fees for training workshops and seminars sponsored by the division. Program activities include the McGruff Crime Prevention Campaign, the production of video documentaries relating to the criminal justice system and crime prevention, the production of a workplace violence prevention manual, and the Kūpuna ID project (intended to provide an emergency contact identification card for adults 65 years or older). The fund meets the criteria of a trust account, as it continues to serve its original purpose and does not require any general fund appropriations.

Litigation Deposits Trust Fund, Section 28-16, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$2,910	\$1,323	\$2,369	\$3	\$7
Revenues	1,208	1,177	75	0	0
Interest	33	44	76	4	0
Expenditures	(2,828)	(175)	(2,517)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,323	\$2,369	\$3	\$7	\$7
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust fund was established in 2002 to account for civil action settlements of \$100,000 or more in which the State is a party, except for those actions involving departments able to procure their own legal services and where no other state statute or court order specifically provides for the deposit of moneys. Funds are used for attorneys' fees and prosecution expenses. The fund meets the definition of a trust fund, as it continues to serve the purpose for which it was originally created and does not receive any general fund appropriations for program expenses.

Notaries Public Revolving Fund, Section 456-9.5, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$80	\$115	\$175	\$186	\$199
Revenues	75	101	52	44	129
Interest	2	4	7	8	4
Expenditures	(42)	(45)	(48)	(39)	(80)
Transfers	0	0	0	0	0
Ending Fund Balance	\$115	\$175	\$186	\$199	\$252
Encumbrances	\$0	\$0	\$0	\$0	\$0

The fund was established in 1998 to account for receipts from original issuance and renewal fees from notaries; penalties and fines for violations; and interest income. The fund is used for personnel costs, acquisition of equipment, and operating and administrative costs of the notary office. The fund reflects a clear link between the benefit sought

and charges made upon users of the program because users are charged original issuance and renewal fees to become notaries. The fund meets the definition of a revolving fund, as the fund is self-sustaining, is an appropriate financing mechanism for the program, and does not require any general fund appropriations.

State Identification Revolving Fund, Section 846-27, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$1,486	\$1,094	\$1,304	\$1,587	\$1,884
Revenues	916	1,240	1,084	1,126	1,024
Interest	20	28	52	59	25
Expenditures	(1,028)	(1,058)	(853)	(888)	(970)
Transfers*	(300)	0	0	0	(700)
Ending Fund Balance	\$1,094	\$1,304	\$1,587	\$1,884	\$1,263
Encumbrances	\$262	\$86	\$63	\$58	\$61

*Transfers were made to the general fund.

This fund was established in 1998 to support the operation and maintenance of the State Identification Card Program, which charges a \$15 fee (\$10 for those 65 years or older) for each card issued. The State ID Program is especially important to the less advantaged sectors of the community such as the elderly, the disabled, those unable to drive, and the very young. Several initiatives have been completed to improve the program, including a new State ID System (SIS) in 2004, community outreach, and the use of the internet to expedite the state ID process. There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund therefore meets the criteria of a revolving fund.

Accounts Established Under Administrative Authority

Criminal Forfeiture Bond Holding Account

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$15	\$24	\$13	\$26	\$20
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers*	9	(11)	13	(6)	34
Ending Fund Balance	\$24	\$13	\$26	\$20	\$54
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers were made to and from persons posting bonds and the Seized Funds – Final Disposition Pending Trust Account or the Criminal Forfeiture Revolving Fund.

Established in 1988, this account was created to hold cost bond moneys posted by persons who claim an interest in property seized for administrative forfeiture. Disbursements from the account include returned cost bonds and transfers pursuant to court orders or stipulations. The account is used as a holding account for cost bonds posted by litigants. The account meets the criteria of a trust account, as it does not require any general fund appropriations and serves the purpose for which it was originally created.

DOT Auction Temporary Deposit Trust Account

Financial Data for Fiscal Years 2005-2006 (in thousands)

	FY2005	FY2006
Beginning Fund Balance	\$0	\$47
Revenues	87	0
Interest	0	0
Expenditures	(40)	(47)
Transfers	0	0
Ending Fund Balance	\$47	\$0
Encumbrances	\$0	\$0

This account was created in 2005 as a temporary holding account to account for a one-time judgment received by the Department of Transportation, Harbors Division. The department recovered various items of heavy equipment from the defendant, which it sold at auction. All proceeds from the auction were subsequently disbursed to the department, the plaintiff in the case, and the account was terminated during FY2006. The account met the definition of a trust account while it existed, as it served the purpose for which it was originally created and did not require any general fund appropriations.

Edward Byrne Memorial Justice Assistance Grant

Financial Data for Fiscal Years 2006-2009 (in thousands)

	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$1,440	\$1,740	\$2,315
Revenues	1,570	934	1,457	484
Interest	24	74	114	41
Expenditures	(22)	(221)	(387)	(680)
Transfers*	(132)	(487)	(609)	(608)
Ending Fund Balance	\$1,440	\$1,740	\$2,315	\$1,552
Encumbrances	\$0	\$0	\$0	\$0

*Transfers are made to state criminal justice agencies who are subgrantee recipients. Transfers are also made to the Anti-Drug Abuse Special Fund for reimbursement of payroll expenses for the department's Crime Prevention and Justice Assistance Division staff.

This fund was established in September 2005 to account for grant proceeds received from the federal Edward Byrne Memorial Justice Assistance Grant Program. The program assists states in improving the functions of the criminal justice system such as law enforcement programs; prosecution and court programs; prevention and education programs; corrections and community correction programs; drug treatment programs; and planning, evaluation, and technology improvement programs. In Hawai'i, the grant is used to support various programs of the Hawai'i, Maui, Kaua'i, and Honolulu police departments as well as the Department of the Attorney General. The grant requires states to match federal funds with 20 percent general funds for administrative expenses (salaries and operating costs).

The fund serves the purpose for which it was originally created. However, the fund does not meet the definition of a trust fund or trust account, as there are no designated persons with a vested beneficial

interest or equitable ownership, and the fund does not serve as a mere holding or clearing account. The department should reconsider reclassification of the fund.

Litigation Settlement Clearance Account

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$60	\$62	\$65
Revenues	0	60	0	0	0
Interest	0	0	2	3	1
Expenditures	0	0	0	0	0
Transfers*	0	0	0	0	0
Ending Fund Balance	\$0	\$60	\$62	\$65	\$66
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust account was established in 1985 and serves as a clearing account for settlements in litigation cases involving the State and other co-defenders. Account activities include the receipt of asbestos settlements, anti-trust settlements, and other collections made by the Civil Recoveries Division. The account meets the criteria of a trust account, as it continues to serve its original purpose and does not require any general fund appropriations.

Seized Funds – Final Disposition Pending Trust Account

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$191	\$235	\$474	\$440	\$534
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers*	44	239	(34)	94	113
Ending Fund Balance	\$235	\$474	\$440	\$534	\$647
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers were made to the Criminal Forfeiture Revolving Fund or to the claimant depending on the outcome of litigation.

Established in 1988, this trust account acts as a holding account for funds seized by administrative or judicial forfeiture until a final determination on the forfeiture is made. Forfeited seized funds are transferred to the Criminal Forfeiture Revolving Fund or returned to the claimant. The account meets the criteria of a trust account, as it does not require any general fund appropriations and serves the purpose for which it was originally created.

Temporary Deposit - Child Support Enforcement Services Account

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$933	\$562	\$324	\$290	\$0
Revenues	1,470	1,470	1,900	350	0
Interest	0	0	0	0	0
Expenditures	(1,841)	(1,708)	(1,934)	(640)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$562	\$324	\$290	\$0	\$0
Encumbrances	\$0	\$127	\$0	\$0	\$0

This account was created in 1986 as a temporary deposit account for federal incentive moneys earned through the Child Support Enforcement Services Division's collection of child support payments. Program activities include the establishment of paternity, child, spousal, and medical support orders; and enforcement of support orders. The fund meets the criteria of a trust account, as it continues to serve its original purpose and does not require any general fund appropriations.

Temporary Deposit – Payroll Overpayment

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$11	\$14	\$14	\$15	\$12
Revenues	4	4	14	5	3
Interest	0	0	0	0	0
Expenditures	(1)	(4)	(13)	(8)	(1)
Transfers	0	0	0	0	0
Ending Fund Balance	\$14	\$14	\$15	\$12	\$14
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust account was created in 1997 to account for semi-monthly employee salary overpayments. Employees are provided an opportunity to either request a hearing to determine the actual salary overpayment amount or choose a repayment plan option. The account meets the criteria of a trust account, as it does not require any general fund appropriations and serves the purpose for which it was originally created.

Chapter 3

Department of Business, Economic Development & Tourism

This chapter presents the results of our review of 21 revolving funds, two trust funds and eight trust accounts of the Department of Business, Economic Development & Tourism (DBEDT).

The Housing and Community Development Corporation of Hawai'i (HCDCH) has been administratively attached to the Department of Human Services (DHS) since July 1, 2003. However, Act 196, Session Laws of Hawai'i 2005, split HCDCH into two entities – the Hawai'i Housing and Finance Development Corporation (HHFDC) and the Hawai'i Public Housing Authority (HPHA) – effective July 1, 2006. The Hawai'i Housing and Finance Development Corporation was placed within DBEDT for administrative purposes. As a result, the following funds relating to HHFDC were also transferred to DBEDT: Dwelling Unit Revolving Fund, Fee Simple Residential Revolving Fund, Housing Finance Revolving Fund, Rental Assistance Revolving Fund, Rental Housing Trust Fund, and Waialua Sugar Workers Grant/Loan Program Revolving Fund. Because of the change in responsible department, we reflect here only the information for FY2007 through FY2009. The FY2005 through FY2006 data will be reflected in our next review of the revolving and trust funds for DHS.

For each fund or account we present a five-year financial summary, the purpose of the fund or account, and the conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first the funds established by statutory authority, followed by the funds and accounts established under administrative authority in alphabetical order.

Funds Established Under Statutory Authority

Brownfields Cleanup Revolving Loan Fund, Section 201-18, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 2002 as a permanent source of funding for low-interest loans or other authorized financial assistance to eligible public, private, and nonprofit borrowers for cleanup activities of contaminated sites as well as site monitoring activities necessary to determine the effectiveness of a cleanup. The objectives of this fund include:

- Promoting economic revitalization of communities through the redevelopment and reuse of abandoned and underutilized sites;
- Eliminating or reducing potential public and environmental health risks through the cleanup of contaminated sites;
- Promoting more efficient and effective use of the State's existing urbanized areas; and
- Assisting in relieving development pressure on undeveloped open lands or agricultural lands.

Primary sources of revenue will include repayment of loan principal and interest, program fees, and other federal or private sources of funding. Initially loans will be directly funded by a \$2 million grant award from the Environmental Protection Agency's Brownfields Cleanup Revolving Loan Fund Pilot Program. The department is still setting up the program. Thus, to date the fund has had no activity. The department reports that it is in the process of closing and funding its first loan of \$1.97 million to the Department of Hawaiian Home Lands for the cleanup of a former pesticide mixing and loading facility site in East Kapolei. However,

the loan was not recorded as of June 30, 2009. The fund is intended to be self-sustaining with moneys being used to cover administrative and legal costs of fund and site management. However, self-sustainability will be unknown until the program is implemented. Act 20, SLH 2007, established this fund as a permanent fund effective June 29, 2007, prior to its originally scheduled repeal date of June 30, 2007.

Dwelling Unit Revolving Fund, Section 201H-191, HRS

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$80,611	\$88,115	\$81,885
Revenues	12,261	7,003	11,971
Interest	3,625	3,769	1,541
Expenditures	(6,350)	(13,780)	(7,178)
Transfers*	(2,032)	(3,222)	(4,028)
Ending Fund Balance	\$88,115	\$81,885	\$84,191
Encumbrances	\$2,601	\$1,648	\$1,964

*Transfers include transfers out to the general fund and the Private Housing Development & Ownership Revolving Fund for operations.

Pursuant to Act 180, SLH 2006, the Dwelling Unit Revolving Fund was transferred from DHS to DBEDT effective July 1, 2006. The fund was established in 1970 to pay for administrative expenses, expand community facilities constructed in conjunction with housing projects, supplement building costs, pay for federal guarantees required for operational losses, and pay for all expenses related to federal requirements. Revenues are generated through loan repayments; sales of dwelling units, land, and other assets; rental payments and lease rent payments from dwelling owners; and investment interest. There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund therefore meets the criteria of a revolving fund.

Fee Simple Residential Revolving Fund, Section 516-44, HRS

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$12	\$55
Revenues	12	5	13
Interest	1	1	1
Expenditures	(8)	(2)	0
Transfers*	7	39	(3)
Ending Fund Balance	\$12	\$55	\$66
Encumbrances	\$0	\$0	\$0

*Amounts represent the net of advances from HHFDC's dispersing fund and transfers to the dispersing fund to reimburse administrative costs.

Under Act 180, SLH 2006, the Fee Simple Residential Revolving Fund was transferred from DHS to DBEDT effective July 1, 2006. This fund was established in 1968 to account for revenues, receipts, and expenditures of the State's Land Reform Program. The fund also accounts for arbitration receipts and expenditures of the lease rent renegotiation program for single family dwellings and cooperative housing corporations. The purpose of the Land Reform Program is to promote fee simple ownership of residential lots to ease the inflation of prices for both fee simple and leasehold residential lots and to disburse ownership of fee simple residential lots to as many people as possible. Revenues are derived from administrative and tract costs charged to lessees participating in the program. Receipts reimburse actual arbitration services performed by designated arbitrators. There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund therefore meets the criteria of a revolving fund.

Hawai'i Capital Loan Revolving Fund, Section 210-3, HRS

Financial Data for Fiscal Year 2005 (in thousands)

	FY2005
Beginning Fund Balance	\$47
Revenues	0
Interest	0
Expenditures	0
Transfers*	(47)
Ending Fund Balance	\$0
Encumbrances	\$0

*The fund was repealed effective July 1, 2004, the fund balance was transferred to the general fund.

The fund was established in 1963 to provide loans to small businesses as defined by the Small Business Administration's Standard Industrial Classification Code in the manufacturing, wholesaling, retailing, and service industries. Loans were provided for plant construction or expansion; purchasing building, land, equipment, machinery, supplies, and materials; or for working capital. The fund did not receive any general fund appropriations. Revenues were derived from loan repayment (principal and interest) and interest earned from the State Investment Pool. Moneys were used to provide direct and participation loans to small businesses that were unable to obtain financing through private or other conventional lenders. These small businesses created jobs, fostered innovation and technology, and promoted the economic development and diversification of the State.

There was a clear link between the benefit sought and charges made upon users. The fund was self-sustaining and did not require any general fund appropriations. The fund therefore met the criteria of a revolving fund. However, Act 178, SLH 2003, repealed this fund effective July 1, 2004. The fund's balance was transferred to the general fund in FY2004-05.

Hawai'i Community Development Revolving Fund, Section 206E-16, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$36,490	\$28,200	\$33,426	\$40,008	\$46,974
Revenues	3,232	6,093	7,181	7,599	2,805
Interest	750	1,102	1,493	1,974	863
Expenditures	(1,789)	(1,528)	(1,527)	(2,100)	(1,587)
Transfers*	(10,483)	(441)	(565)	(507)	(471)
Ending Fund Balance	\$28,200	\$33,426	\$40,008	\$46,974	\$48,584
Encumbrances	\$6,456	\$7,293	\$6,878	\$761	\$16,385

*In FY2005, \$397,000 was transferred to the authority's operating revolving fund (S-358) to cover operating expenses; \$86,000 was transferred to the OHA Ceded Lands Proceeds – HCDA trust account, representing 20 percent of the revenues generated from ceded lands within HCDA's control; and \$10,000,000 was transferred to the State Treasury as required by the Legislature.

In FY2006, \$325,000 was transferred to the authority's operating revolving fund (S-358) to cover operating expenses and \$116,000 was transferred to the OHA Ceded Lands Proceeds – HCDA trust account.

In FY2007, \$324,000 was transferred to the authority's operating revolving fund (S-358) to cover operating expenses; \$199,000 was transferred to the OHA Ceded Lands Proceeds – HCDA trust account; and \$42,000 was transferred as an emergency appropriation to the State Risk Management Revolving Fund.

In FY2008, \$449,000 was transferred to the authority's operating revolving fund (S-358) to cover operating expenses and \$58,000 was transferred to the OHA Ceded Lands Proceeds – HCDA trust account.

In FY2009, \$407,000 was transferred to the authority's operating revolving fund (S-358) to cover operating expenses and \$64,000 was transferred to the OHA Ceded Lands Proceeds – HCDA trust account.

This fund was established in 1976 to account for all revenues and receipts of the Hawai'i Community Development Authority (HCDA). The HCDA prepares and implements the Kaka'ako and Kalaeloa Community Development District Plans and districts designated by the Legislature; establishes and enforces community development rules on health, safety, building, planning, zoning and land use; establishes community development programs; and cooperates with private enterprise and federal, state, and county agencies in bringing these plans to fruition.

Revenues include assessments from non-government land owners who specifically benefit from Improvement District projects that the HCDA has undertaken, cost sharing payments received from public utility

companies, facility dedication payments and contributions from private developers of residential projects, investment income, and rent and lease payments relating to the use of agency assets located in the Kaka‘ako Community Development District.

Primary beneficiaries are the residents and businesses in the Kaka‘ako and Kalaeloa Community Development Districts. The fund meets the definition of a revolving fund, as there is a direct linkage between the benefit sought and the charges made upon users, the fund continues to serve the purpose for which it was originally created, and the fund is self-sustaining.

Hawai‘i Community-Based Economic Development Revolving Fund, Section 210D-4, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$367	\$283	\$111	\$93	\$104
Revenues	5	6	3	2	0
Interest	9	13	4	5	2
Expenditures	(123)	(206)	(75)	(46)	(58)
Transfers*	25	15	50	50	50
Ending Fund Balance	\$283	\$111	\$93	\$104	\$98
Encumbrances	\$88	\$108	\$28	\$67	\$41

*Transfers were made from the general fund.

This fund was established in 1990 to support the Hawai‘i Community-Based Economic Development (CBED) Program, which assists community-based enterprises in the State, through loans, grants, and technical assistance. There are two primary goals of the program: 1) investing in the development of community-based organizations that create opportunities for economic diversification and stabilization for communities, and 2) increasing community economic self-determination by encouraging locally initiated efforts to provide employment opportunities, build economic capacity, strengthen identity, and retain and create cultural anchors. Revenues are derived from investment pool interest, loan repayments, interest payments related to loans, and transfers from general fund appropriations.

The fund does not meet all of the criteria of a revolving fund. Although the fund continues to serve the purpose for which it was created as grants and loans support organizations involved in community-driven economic development activities, the fund does not demonstrate the ability to be

self-sustaining, receiving regular infusions of general funds for salaries and administrative expenses. Additionally, there are no user fees under the fund's grant and technical assistance programs, and therefore no direct link between the benefits sought and user charges. The fund should be repealed and the program budgeted through the general fund.

Hawai'i Strategic Development Corporation Revolving Fund, Section 211F-5, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$770	\$759	\$653	\$435	\$479
Revenues	0	0	19	329	80
Interest	21	46	25	19	9
Expenditures	(32)	(152)	(262)	(304)	(101)
Transfers	0	0	0	0	0
Ending Fund Balance	\$759	\$653	\$435	\$479	\$467
Encumbrances	\$0	\$0	\$2	\$0	\$27

This fund was established to support the Hawai'i Strategic Development Corporation in its development of a sustainable venture capital industry to stimulate the growth of viable new businesses in Hawai'i. Revenues consist of legislative appropriations, return on investments, interest earned on time certificates of deposit and the State Investment Pool, prior transfers from DBEDT business financing programs, and funds provided from other entities. Funds are used to support start-up technology firms, service providers to emerging companies, the corporation's entrepreneurial support programs, the development of venture capital funds, and the development of technology and biotechnology industry infrastructure.

The fund has not received general fund support to cover personnel costs since FY2005; however, the current economic crisis has raised questions as to whether the fund can continue without general fund support. In April 2009, the corporation installed new management of the fund and is in the process of taking a more active role in the management of its portfolio, actively developing new programs to mobilize capital technology-based ventures in Hawai'i, and updating its long-range strategic goals and performance metrics. The fund meets the criteria of a revolving fund, since there is a clear link between the benefits sought and the charges made upon users, and because the fund is currently self-sustaining. However, there is concern over the fund's capacity to continue to be self-sustaining.

Hawai'i Technology Loan Revolving Fund, Section 206M-15.6, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 2000 to invest in technology development in Hawai'i by providing loans to qualified high technology companies in the State. The fund's activities are designed to provide support and create business opportunities for Hawai'i's technology industry by making capital available to those companies that have difficulty obtaining loans from conventional means or from venture capitalists. Initial seed moneys for the fund were supposed to come from the Hawai'i Capital Loan Fund; however, moneys in the Hawai'i Capital Loan fund are not available. Moneys to sustain the fund are intended to come from legislative appropriations, loan repayments, investment earnings, royalties, premiums or fees or equity, and loans that are convertible to equity.

Since the program has not yet been implemented, we cannot evaluate whether the fund appropriately meets the criteria of a revolving fund.

Housing Finance Revolving Fund, Section 201H-80, HRS

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$1,782	\$1,927	\$2,873
Revenues	2,313	2,484	22,554
Interest	95	110	54
Expenditures	(258)	(487)	(1,048)
Transfers*	(2,005)	(1,161)	(21,773)
Ending Fund Balance	\$1,927	\$2,873	\$2,660
Encumbrances	\$0	\$0	\$0

*Transfers were made to HHFDC's disbursing fund to reimburse administrative costs.

Pursuant to Act 180, SLH 2006, the Housing Finance Revolving Fund was transferred from DHS to DBEDT effective July 1, 2006. The fund was established in 1985 to pay for long-term financing, other special financing, and administrative expenses of the Hawai'i Housing Finance and Development Corporation. The fund includes subaccounts for the Mortgage Credit Certificate Program, the Kahana Valley Loan Program, and the Low-Income Housing Tax Credit Program. Revenues are generated through loan repayments and interest payments. There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and an appropriate financing mechanism for the program. The fund therefore meets the criteria of a revolving fund. The department noted that pursuant to Act 79, SLH 2009, investment interest generated by this fund will be deposited into the State's general fund for fiscal years 2010 through 2015.

Kalaeloa Community Development Revolving Fund, Section 206E-195, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$74	\$170	\$212	\$4	\$7
Revenues	156	63	2	0	1
Interest	1	5	4	0	1
Expenditures	(61)	(26)	(24)	(57)	(63)
Transfers*	0	0	(190)	60	71
Ending Fund Balance	\$170	\$212	\$4	\$7	\$17
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers in FY2007 and FY2009 are to and from the Kalaeloa Community Development District Fund. Transfer in FY2008 is from the Kalaeloa operating fund.

This fund was originally established in 1997 by Section 206G, Hawai‘i Revised Statutes (HRS), to enable the Barbers Point Naval Air Station Redevelopment Commission to provide interim infrastructure services to the end-users of approximately 2,150 acres of land deemed surplus by the U.S. Navy. In 2002, the responsibilities of the commission were transferred to the Hawai‘i Community Development Authority and the fund was reestablished under Section 206E-195, HRS.

The current purpose of the fund is to support the redevelopment activities of the authority within the Kalaeloa Community Development District. Activities include promulgation of district plans and adoption of administrative rules; coordination of the conveyance of land within the district with the U.S. Navy/Base Realignment and Closure Program and federal congressional delegation; plan, design, and execution of improvement district projects; community outreach activities; review and assist area landowners seeking to develop their lands; and manage legislative information and relations. Revenues come from fees that the authority is authorized to assess on all land users, except the federal government, for their fair share of costs required to administer and manage the district.

Beginning in FY2007, the fund may also be augmented by transfers from the Kaka‘ako Community Development Revolving Fund to cover improvement district projects directly benefitting the Kalaeloa Community Development District. The fund meets the definition of a revolving fund, as there is direct linkage between the benefit sought and the charges made upon users, the fund continues to serve the purpose for which it was originally created, and the fund is self-sustaining.

Kīkala-Kēōkea Housing Revolving Fund, Section 201H-81, HRS

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$200	\$200
Revenues	200	0	0
Interest	0	0	229
Expenditures	0	0	0
Transfers*	0	0	0
Ending Fund Balance	\$200	\$200	\$429
Encumbrances	\$0	\$0	\$0

This fund was established in 2007 to provide low interest loans for home construction for Kīkala-Kēōkea leaseholders who have been denied loans from traditional financial institutions. Revenues are to be derived from the repayment of loans and interest. Upon fulfillment of the purpose of the fund, all unencumbered moneys shall lapse to the general fund. To date, the fund recorded only the initial general fund appropriation of \$200,000 in fiscal year 2007 and a one-time interest payment from DLNR from infrastructure improvements at Kīkala-Kēōkea. The fund is intended to be self-sustaining with interest payments being used for administrative expenses. However, self-sustainability will be unknown until the program is implemented.

Rental Assistance Revolving Fund, Section 201H-123, HRS

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$27,211	\$24,397	\$27,591
Revenues	2,400	3,083	0
Interest	1,550	1,725	971
Expenditures	(6,707)	(1,532)	(1,510)
Transfers*	(57)	(82)	(77)
Ending Fund Balance	\$24,397	\$27,591	\$26,975
Encumbrances	\$0	\$0	\$0

*Transfers are to the Hawai'i Housing and Finance Development Corporation administration fund for operational and audit costs.

Pursuant to Act 180, SLH 2006, the Rental Assistance Revolving Fund was transferred from DHS to DBEDT effective July 1, 2006. The fund was established in 1982 to make payments under rental assistance contracts or to subsidize tenants' rents in projects. Revenues are derived from interim construction loan repayments and interest income from investments. Up to \$25 million from the fund, plus any bond proceeds, may also be used to provide interim construction financing to qualified sponsors or be used by the Hawai'i Housing and Finance Development Corporation to develop affordable rental housing. A clear link exists between the benefits sought and charges made upon users of interim construction financing. In addition, the fund is self-sustaining and does not require general fund appropriations. However, there is no linkage in the case of the rental assistance program. We previously recommended that the rental assistance program be budgeted through the general fund. The corporation reports that pursuant to Act 79, SLH 2009, investment interest generated by this fund will be deposited in the general fund for fiscal years 2010 through 2015.

Rental Housing Trust Fund, Section 201H-202, HRS

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$41,810	\$61,224	\$91,196
Revenues	25,610	20,184	8,075
Interest	1,886	3,108	1,669
Expenditures	(2,582)	(8,320)	(16,428)
Transfers*	(5,500)	15,000	0
Ending Fund Balance	\$61,224	\$91,196	\$84,512
Encumbrances	\$0	\$0	\$0

*In FY2007, \$5.5 million was transferred to the general fund for Kahikolu Ohana Hale O Wai'anae pursuant to the governor's proclamation on Leeward Coast homelessness. In FY2008, the Legislature approved a \$15 million infusion from general funds to build more affordable rental housing units.

Under Act 180, SLH 2006, the Rental Housing Trust Fund was transferred from DHS to DBEDT effective July 1, 2006. This fund was established in 1993 to provide loans or grants for the development, predevelopment, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. The fund can also be used for planning, design, land acquisition, costs of options, agreements of sale, down payments, equity financing, capacity-building of non-profit

housing developers, and other housing development services or activities. Revenues are derived from a specified percentage of conveyance tax revenues, repayment of loans, and interest income.

The fund continues to serve the purpose for which it was originally created and in prior reviews we concluded that this fund met the definition of a trust fund. However, upon closer scrutiny, the fund does not meet the definition of a trust fund as there are no designated persons or classes of persons having a vested beneficial interest or equitable ownership in the assets of the fund as required by state law. This fund should be repealed or reclassified.

State Disaster Revolving Loan Fund, Section 209-34, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$1,024	\$1,019	\$1,068	\$1,122	\$1,182
Revenues	6	14	46	6	24
Interest	28	35	8	54	22
Expenditures	(39)	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,019	\$1,068	\$1,122	\$1,182	\$1,228
Encumbrances	\$0	\$0	\$0	\$0	\$0

The fund was established in 1961 to provide loans to business, individuals, and families who suffer damages in a state-declared disaster. The fund continues to serve the purpose for which it was created. A direct link exists between the benefit sought and charges made upon users because those who receive loans are required to repay the principal and interest. The fund meets the definition of a revolving fund, as the fund is self-sustaining, is an appropriate financing mechanism for the program, and does not require any general fund appropriations.

Tourism Emergency Trust Fund (Not in S/T), Section 201B-10, HRS

Financial Data for Fiscal Years 2008-2009 (in thousands)

	FY2008	FY2009
Beginning Fund Balance	\$0	\$5,000
Revenues	0	0
Interest	0	0
Expenditures	0	0
Transfers*	\$5,000	0
Ending Fund Balance	\$5,000	\$5,000
Encumbrances	\$0	\$0

*Transfer from the Tourism Special Fund to establish the Tourism Emergency Trust Fund.

This trust fund was established in 2008 to be administered by the Board of Directors of the Hawai'i Tourism Authority. Moneys in the fund shall be used exclusively to provide for the development and implementation of emergency measures to respond to any tourism emergency, including providing emergency assistance to tourists. Tourism emergencies must be declared by the governor and include the occurrence of a world conflict, terrorist threat, natural disaster, outbreak of disease, or other catastrophic event that adversely affects Hawai'i's tourism industry. Any excess transient accommodations taxes collected by the State shall be used annually to maintain a balance of \$5 million in the fund.

This fund does not meet the definition of a trust fund as there are no designated persons or classes of persons having a vested beneficial interest or equitable ownership in the assets of the fund as required by state law. This fund should be repealed or reclassified.

Funds and Accounts Established Under Administrative Authority

Broadened Homesite Ownership Revolving Fund

Financial Data for Fiscal Years 2007-2008 (in thousands)

	FY2007	FY2008
Beginning Fund Balance	\$7	\$2
Revenues	0	0
Interest	0	0
Expenditures	(5)	0
Transfers*	0	(2)
Ending Fund Balance	\$2	\$0
Encumbrances	\$0	\$0

*Amount represents the balance of the fund transferred to the Fee Simple Residential Revolving Fund to close out the fund.

This fund was administratively established to account for administrative expenditures for the Fee Simple Residential Revolving Fund while administered by DHS. Under Act 180, SLH 2006, the Fee Simple Residential Revolving Fund was transferred from DHS to DBEDT effective July 1, 2006. After the transfer, DBEDT did not utilize this fund to account for administrative expenditures of the Fee Simple Residential Revolving Fund. During FY2007, the only activity of the fund was to reimburse the Hawai'i Public Housing Authority for expenditures incurred in the previous fiscal year. The fund was terminated in FY2008 and the remaining balance transferred to the Fee Simple Residential Revolving Fund.

Emergency Appropriation – Deposit in State Risk Management Revolving Fund

Financial Data for Fiscal Year 2007 (in thousands)

	FY2007
Beginning Fund Balance	\$0
Revenues	0
Interest	0
Expenditures	(42)
Transfers*	42
Ending Fund Balance	\$0
Encumbrances	\$0

*Transfer from Hawai'i Community Development Revolving Fund.

This fund was created in 2007 to account for an expected emergency appropriation from the Legislature and subsequent transfer to the State Risk Management Revolving Fund. The Hawai'i Community Development Authority (HCDA) transferred moneys into this fund, which was subsequently disbursed to the State Risk Management Revolving Fund, in anticipation that the Legislature would appropriate moneys to reimburse HCDA. Legislation for the emergency appropriation did not pass out of the Hawai'i Legislature. The Hawai'i Community Development Authority did not make any further requests to replenish the amount that was forwarded, and the fund was closed at the end of FY2007.

Hawai'i Community Development Authority (Operating Allotment) Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$108	\$72	\$4	\$37
Revenues	0	0	0	0	0
Interest	0	0	0	0	2
Expenditures	(289)	(361)	(391)	(417)	(382)
Transfers*	397	325	323	450	407
Ending Fund Balance	\$108	\$72	\$4	\$37	\$64
Encumbrances	\$92	\$16	\$3	\$1	\$1

*All transfers are from the Hawai'i Community Development Revolving Fund.

This revolving fund was established in 2004 to serve as an operating account for the Hawai'i Community Development Authority. The only receipts of the fund are in the form of transfers from the Hawai'i Community Development Revolving Fund. The fund is self-sustaining and does not require any general fund appropriations. However, the fund does not operate as a revolving fund and is merely a mechanism to fund operating expenses. Further, Section 37-52.4, HRS, states that "revolving funds shall only be established pursuant to an act of the legislature." As this fund is not specifically established by statute, it should be reviewed for possible termination or reclassification.

Hawai'i Housing Finance and Development Corporation

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$0	\$561	\$23
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	(916)	(707)	(778)
Transfers*	0	0	1,477	169	880
Ending Fund Balance	\$0	\$0	\$561	\$23	\$125
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers in FY2007 and FY2009 are from the Housing Finance Revolving Fund to separately account for administration costs. In FY2008, \$730,000 was transferred from the Housing Finance Revolving Fund; however, \$561,000 was subsequently transferred back to the Housing Finance Revolving Fund due to an overestimate in administration costs.

This fund was established in 2007 to serve as the operating account for the finance portion of the Hawai'i Housing Finance and Development Corporation. Amounts are transferred from the Housing Finance Revolving Fund to offset the expenditures of the fund. This fund does not operate as a revolving fund and is merely a mechanism to fund administrative expenses. Further, Section 37-52.4, HRS, states that "revolving funds shall only be established pursuant to an act of the legislature." As this fund was administratively established, we recommend that the fund be terminated or possibly reclassified.

Hawai'i Housing Finance and Development Corporation Administration Revolving Fund

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$300
Revenues	0	1	0
Interest	0	0	0
Expenditures	(2,149)	(2,878)	(2,887)
Transfers*	2,149	3,177	2,887
Ending Fund Balance	\$0	\$300	\$300
Encumbrances	\$0	\$0	\$0

*Transfers are from the Housing Finance Revolving Fund and the Dwelling Unit Revolving Fund.

This fund was established in FY2007 to serve as the operating account for the Hawai'i Housing Finance and Development Corporation administration. Amounts are transferred from the Housing Finance Revolving Fund and the Dwelling Unit Revolving Fund to offset the expenditures of the fund. This fund does not operate as a revolving fund and is merely a mechanism to fund administrative expenses. Further, Section 37-52.4, HRS, states that "revolving funds shall only be established pursuant to an act of the legislature." As this fund was administratively established, it should be terminated or possibly reclassified.

International Center for Economic Growth Asia/Pacific Discretionary Fund

Financial Data for Fiscal Years 2005-2006 (in thousands)

	FY2005	FY2006
Beginning Fund Balance	\$1	\$1
Revenues	0	0
Interest	0	0
Expenditures	0	(1)
Transfers	0	0
Ending Fund Balance	\$1	\$0
Encumbrances	\$0	\$0

This trust account was established in 1998 to account for contributions received from the International Center for Economic Growth (ICEG) for research and projects in the Asia-Pacific region. The fund defrays administrative expenses incurred in connection with the coordination of research and projects in the Asia-Pacific region. The account met the criteria of a trust account, as it did not require any general fund appropriations and served the purpose for which it was originally created. As of June 30, 2006, the contribution from the ICEG was fully expended and the trust account was terminated.

NGA Clean Energy States Grant Program

Financial Data for Fiscal Year 2009 (in thousands)

	FY2009
Beginning Fund Balance	\$0
Revenues	25
Interest	0
Expenditures	(1)
Transfers	0
Ending Fund Balance	\$24
Encumbrances	\$0

This trust account was established in 2009 to serve as a holding account for a grant received from the National Governors Association. The purpose of the grant is to support studies and required travel to evaluate details and implementation of programs to support the use of electricity for personal transportation; increase the value and use of renewable electricity generated off-peak; store such energy; and provide grid benefits during times of grid instability or peak demand. The account meets the definition of a trust account, as it serves its original purpose and requires no general fund appropriations.

OHA Ceded Lands Proceeds - FTZ

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	29	14	14	19	20
Interest	0	0	0	0	0
Expenditures	(29)	0	(14)	(19)	(20)
Transfers*	0	(14)	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

*In fiscal year 2006, payments to OHA were processed as revenue transfers.

Pursuant to Executive Order No. 03-03, this trust account was administratively established in 2003 as a temporary holding account for 20 percent of revenues received from foreign trade zone tenants leasing property on ceded lands that are to be transferred to the Office of Hawaiian Affairs. The account meets the criteria of a trust account, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

OHA Ceded Lands Proceeds - HCDA

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$7	\$19	\$7	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(74)	(128)	(205)	(58)	(65)
Transfers*	86	116	198	58	65
Ending Fund Balance	\$19	\$7	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers received from the Hawai'i Community Development Revolving Fund. Payments to OHA are recorded as expenditures.

This trust account was administratively established in 2003 as a temporary holding account for 20 percent of the revenues received from Hawai'i Community Development Authority tenants on ceded lands.

Revenues collected are subsequently disbursed to the Office of Hawaiian Affairs. This account meets the criteria of a trust account, as it requires no general fund appropriations and continues to serve the purpose for which it was originally created.

OHA Ceded Lands Proceeds - NELHA

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$0	\$1	\$33
Revenues	244	191	232	252	293
Interest	0	0	0	0	0
Expenditures	(244)	0	(64)	(220)	(322)
Transfers*	0	(191)	(167)	0	0
Ending Fund Balance	\$0	\$0	\$1	\$33	\$4
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Payments to OHA were processed as transfers.

This trust account was administratively established in 2003 as a temporary holding account for 20 percent of rental revenues received from Natural Energy Laboratory of Hawai'i Authority tenants leasing property on ceded lands. Revenues collected are subsequently disbursed to the Office of Hawaiian Affairs. The account meets the criteria of a trust account, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Private Contributions and Grants Trust Account

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$90	\$92	\$95	\$99	\$104
Revenues	2	3	4	5	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	(9)
Transfers	0	0	0	0	0
Ending Fund Balance	\$92	\$95	\$99	\$104	\$95
Encumbrances	\$0	\$0	\$0	\$100	\$91

This trust account is used to account for contributions and grants received from private sources. The fund supports the program activities of the specific project relating to the contribution or grant. Revenues include contributions and grants from private sources and interest earned on time certificates of deposit and the State Investment Pool. The account meets the criteria of a trust account, as it does not require any general fund appropriations and serves the purpose for which it was originally created.

Private Housing Development & Ownership Revolving Fund

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$197	\$75
Revenues	0	0	0
Interest	0	0	0
Expenditures	(1,153)	(1,225)	(1,314)
Transfers*	1,350	1,103	1,525
Ending Fund Balance	\$197	\$75	\$286
Encumbrances	\$0	\$0	\$0

*Transfers are from the Dwelling Unit Revolving Fund for operational expenditures.

The fund was established in 2007 and represents the operating account of the Dwelling Unit Revolving Fund. This fund does not operate as a revolving fund and is merely a mechanism to fund related operating expenses. Further, Section 37-52.4, HRS, states that “revolving funds shall only be established pursuant to an act of the legislature.” As this fund was administratively established, it should be terminated or possibly reclassified as a trust account.

Supplemental Environmental Project Fund

Financial Data for Fiscal Year 2009 (in thousands)

	FY2009
Beginning Fund Balance	\$0
Revenues	638
Interest	0
Expenditures	0
Transfers	0
Ending Fund Balance	\$638
Encumbrances	\$0

This trust account was established in 2009 to serve as a holding account for part of a settlement agreement received regarding the Waimānalo Gulch Sanitary Landfill. The purpose of this account is to fund environmentally beneficial projects to benefit Leeward O‘ahu communities located near the landfill, or other communities or residents of O‘ahu, as designated by the Department of Health after consultation with the Leeward communities located near the landfill. In a memorandum of agreement between the Departments of Health and Business, Economic Development & Tourism (DBEDT), DBEDT is responsible for administering the trust account. Although fund guidance is still in draft form, the account appears to meet the definition of a trust account, as it serves its original purpose and requires no general fund appropriations.

Temporary Deposits Grants Trust Account

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$272	\$252	\$255	\$271	\$204
Revenues	39	64	37	22	59
Interest	0	0	0	0	0
Expenditures	(59)	(61)	(21)	(89)	(36)
Transfers	0	0	0	0	0
Ending Fund Balance	\$252	\$255	\$271	\$204	\$227
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established as a holding account for temporary deposits such as refundable rental deposits from tenants, registration fees for seminars, and private contributions for short-term projects. Revenues include refundable rental and other deposits, registration fees, and short-term contributions to the department for specific projects. The account meets the criteria of a trust account, as it does not require any general fund appropriations and serves the purpose for which it was originally created.

UH Faculty Housing 1995 Bond Proceeds-RHS Revolving Fund

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$402	\$449	\$488
Revenues	1,272	1,271	14,680
Interest	18	21	9
Expenditures	(1,235)	(1,233)	(14,651)
Transfers*	(8)	(20)	(11)
Ending Fund Balance	\$449	\$488	\$515
Encumbrances	\$0	\$0	\$0

*Transfers in each year are to reimburse the HHFDC administrative operating account for the fund's portion of audit fees.

The UH Faculty Housing 1995 Bond Proceeds-RHS was transferred from DHS to DBEDT effective July 1, 2006. This revolving fund was established in 1995 to account for the issuance and repayment of bond proceeds for the rental housing system of the University of Hawai'i Faculty Housing Project. The Hawai'i Housing Finance and Development Corporation, or its predecessors, included this project in its bond financing because the university could not issue its own bonds. Under an agreement between the university and the corporation, the university is responsible for repaying the bond principal and interest and also pays the corporation an administrative fee to service the bond.

Although this fund continues to serve the purpose for which it was originally created, and does not require any general fund appropriations, it was not specifically created by statute. Section 37-52.4, HRS, states that "revolving funds shall only be established pursuant to an act of the legislature." As this fund was administratively established, we recommend that the fund be reviewed for possible reclassification as a special fund.

Waiialua Sugar Workers Grant/Loan Program Revolving Fund

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2007	FY2008	FY2009
Beginning Fund Balance	\$26	\$35	\$37
Revenues	9	2	3
Interest	0	0	0
Expenditures	0	0	0
Transfers*	0	0	0
Ending Fund Balance	\$35	\$37	\$40
Encumbrances	\$0	\$0	\$0

Pursuant to Act 196, SLH 2005, the administration of the Waiialua Sugar Workers Grant/Loan Program Revolving Fund was transferred from DHS to DBEDT effective July 1, 2006. This revolving fund was established in 1995 to provide low-interest emergency loans and rental subsidies to former employees and retirees of the Waiialua Sugar Company or their surviving spouses requiring assistance due to the plantation closure. Original funding came from legislation appropriating moneys from the Rental Assistance Revolving Fund. Revenues are generated through loan repayments and interest payments.

There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and no general fund appropriations have been required. Linkage exists for the loans made since those who receive loans must repay the principal amount including interest; however, linkage does not exist for the subsidies provided as that portion of the program operates more as a trust fund. No subsidies have been made in the last five years and none are anticipated in the future as the fund is winding down. The department noted that although the fund continues to collect loan repayments, no new loans are being issued. The department should consider discontinuing the fund and transferring unused funds back to the Rental Assistance Revolving Fund.

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Chapter 4

University of Hawai‘i

This chapter presents the results of our review of 29 revolving funds, 11 trust funds, and 2 trust accounts of the University of Hawai‘i. For each fund or account we present a five-year financial summary, the purpose of the fund or account, and the conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first the funds established by statutory authority, followed by the funds and accounts established under administrative authority in alphabetical order.

Funds Established Under Statutory Authority

Animal Research Farm, Waiale‘e, O‘ahu Revolving Fund, Section 304A-2262, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$49	\$65	\$87	\$77	\$88
Revenues	15	35	4	13	0
Interest	2	2	3	3	2
Expenditures	(1)	(15)	(17)	(5)	(3)
Transfers	0	0	0	0	0
Ending Fund Balance	\$65	\$87	\$77	\$88	\$87
Encumbrances	\$5	\$2	\$0	\$1	\$0

This fund was established in 1974 to account for revenues from the sale of livestock and by-products at the Waiale‘e Livestock Experiment Station. Funds were used to maintain the station and purchase livestock. In FY2000-01, management made the decision to temporarily close the station, sell excess livestock, and make necessary repairs as needed. A final decision on the future of the station has not been made. Only a few sheep remain at the station. This fund does not meet the criteria of a revolving fund, as it no longer serves the purpose for which it was created, and should be repealed.

Career and Technical Training Projects Revolving Fund, Section 304A-2268, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$79	\$78	\$82	\$85	\$93
Revenues	3	4	3	10	9
Interest	2	3	3	3	2
Expenditures	(5)	(2)	(3)	(5)	(3)
Transfers*	(1)	(1)	0	0	0
Ending Fund Balance	\$78	\$82	\$85	\$93	\$101
Encumbrances	\$1	\$0	\$0	\$0	\$0

*Transfers made to the Community College Special Fund.

This fund was established in 1974 to account for receipts and disbursements for services, supplies, and use of equipment provided for vocational and technical training projects at the community colleges and the University of Hawai'i at Hilo. These respective campuses sponsor career and technical projects for which fees are collected. The fund continues to serve its original purpose and there exists a direct link between the benefits provided and the charges made upon beneficiaries. The fund is self-sustaining and meets all criteria of a revolving fund.

Center for Labor Education and Research Revolving Fund, Section 304A-2267, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$30	\$47	\$13	\$21	\$21
Revenues	31	54	19	21	15
Interest	1	1	1	1	0
Expenditures	(15)	(89)	(12)	(22)	(14)
Transfers	0	0	0	0	0
Ending Fund Balance	\$47	\$13	\$21	\$21	\$22
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1976 to account for fees charged to students and labor organizations for conducting classes. The fund provides

labor-related education, labor-related research, and education services for labor organizations and the general public. Program activities supported by the fund include producing the *Rice & Roses* television program; conducting labor-related publications on subjects of interests to labor organizations; and developing and conducting labor studies courses. The fund continues to serve the purpose for which it was created, and reflects a clear link between the benefits sought and charges made upon users. Revenues are generated through fees charged to students and labor organizations for conducting classes. The fund does not require any general fund appropriations and meets the criteria of a revolving fund.

Child Care Programs Revolving Fund, Section 304A-2252, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	(\$95)	(\$74)	(\$100)	(\$77)	(\$47)
Revenues	543	568	631	780	871
Interest	1	1	2	2	2
Expenditures	(523)	(595)	(610)	(752)	(977)
Transfers	0	0	0	0	0
Ending Fund Balance	(\$74)	(\$100)	(\$77)	(\$47)	(\$151)
Encumbrances	\$6	\$8	\$7	\$9	\$16

This fund was established in 1986 to provide for the operation of child-care programs and renovations of child care centers. Funds are used to provide quality early childhood education and child care services for students and university faculty and staff. Revenues are derived from user fees, donations, United States Department of Agriculture Child and Adult Food Program reimbursements, and interest earned on the fund.

The fund was previously reviewed in 1992, 2001, and 2004. All reviews noted that the fund was not self-sustaining because teaching and administrative personnel were paid from general funds. This continues to be the case, since general funds continue to be used to support eight full-time-equivalent positions, which include the director and seven early childhood specialists who serve as teachers to the preschoolers. Since FY2001-02, the fund has reported deficit ending balances. The fund continues to serve the purpose for which it was created, and reflects a clear link between the benefits sought and charges made upon users. However, the fund continues to require general fund appropriations and does not meet all revolving fund criteria.

Commercial Enterprises Revolving Fund, Section 304A-2251, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$1,313	\$1,432	\$1,582	\$2,041	\$2,807
Revenues	1,662	1,790	2,286	3,819	2,537
Interest	38	57	82	106	56
Expenditures	(1,581)	(1,495)	(1,732)	(3,159)	(2,259)
Transfers*	0	(202)	(177)	0	(500)
Ending Fund Balance	\$1,432	\$1,582	\$2,041	\$2,807	\$2,641
Encumbrances	\$67	\$60	\$68	\$44	\$96

*Transfer in FY2009 included \$5,000 transfer from the Community College Special Fund. Other transfers represent internal transfers consisting of licensing royalty distributions to the various campuses (Mānoa, Hilo, West O'ahu, and community colleges) for their portion of royalties collected.

This fund was established in 1997 to account for revenues and expenditures relating to, but not limited to, the operations of commercial enterprises under university programs. Program activities are intended to increase the university's public awareness and improve its image and accessibility through the sale of emblematic merchandise, participation in events, and advertising. Revenues are generated through the sale of emblematic merchandise. There is a clear link between the benefits sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund therefore meets the criteria of a revolving fund.

Community College Conference Center Revolving Fund, Section 304A-2273, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$438	\$573	\$778	\$1,391	\$1,119
Revenues	759	922	1,280	340	635
Interest	14	24	35	41	0
Expenditures	(616)	(747)	(702)	(653)	(594)
Transfers*	(22)	6	0	0	(1)
Ending Fund Balance	\$573	\$778	\$1,391	\$1,119	\$1,159
Encumbrances	\$43	\$32	\$58	\$57	\$62

*Transfers were either made to or from the Community College Special Fund.

Established in 1994, this fund is used to account for the fees, charges, and other moneys collected in conjunction with conference center activities conducted at the various community colleges. Funds are used for conference center activities, including but not limited to honoraria, hotel and room rentals, food and refreshment, printing and mailing, airfare and per diem, lei, rental of audio-visual equipment, and conference supplies and materials. The fund continues to serve the purpose for which it was created, and reflects a clear link between the benefits sought and charges made upon users. The fund does not require any general fund appropriations and meets the criteria of a revolving fund.

Community College and University of Hawai'i at Hilo Bookstore Revolving Fund, Section 304A-2269, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1971 to pay for the cost of goods or services rendered or furnished to the bookstores. The fund should be replenished by the charges made for the goods or services or through transfers from other accounts or funds. However, the university accounts for these transactions within the University Revenue-Undertakings Special Fund and has not used this revolving fund for several years. We recommend that this fund be repealed.

Conference Center Revolving Fund, Section 304A-2264, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$174	\$67	\$282	\$141	\$175
Revenues	679	1,281	936	674	760
Interest	9	13	21	20	12
Expenditures	(785)	(1,079)	(1,098)	(660)	(994)
Transfers*	(10)	0	0	0	0
Ending Fund Balance	\$67	\$282	\$141	\$175	\$(47)
Encumbrances	\$48	\$86	\$54	\$81	\$72

*Transfers were made to and from various university departments for conference registration fees.

This fund was created in 1990 to account for fees, charges, and other moneys collected in conjunction with the conference center program. The program provides the university, state agencies, nonprofit

organizations, and local businesses with meeting planning assistance in conducting seminars, symposia, institutes, and conferences. The fund continues to serve the purpose for which it was created, and reflects a clear link between the benefits sought and charges made upon users. Revenues are generated through registration fees assessed to participants. The fund does not require any general fund appropriations and meets the criteria of a revolving fund.

Conference Center Revolving Fund – UH Hilo, Section 304A-2272, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$1	\$1	\$1	\$1	\$1
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$1	\$1	\$1	\$1	\$1
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1993 to account for fees, charges, and other moneys collected by the University of Hawai'i at Hilo's conference center program. Funds are used to conduct conferences, seminars, and courses by the conference center program. In 2001 and in 2004, we reported that the fund has experienced only minimal activity and does not appear to be serving the purpose for which it was originally created. The fund continues to show no activity during fiscal years 2005 through 2009, and thus fails to meet its statutory purpose. Although there is no current fund activity, the university anticipates this fund will be re-activated after completion of the Student Life and Event Center.

Discoveries and Inventions Revolving Fund, Section 304A-2254, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$1,244	\$1,081	\$791	\$603	\$82
Revenues	1,427	1,398	1,179	898	1,209
Interest	28	31	19	9	9
Expenditures	(1,618)	(1,719)	(1,386)	(1,428)	(1,088)
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,081	\$791	\$603	\$82	\$212
Encumbrances	\$38	\$40	\$5	\$72	\$4

The fund was created in 1988 to support the development of technologies that have potential commercial value, the administration of technology transfer activities at the university, and to facilitate economic development through education and research. Revenues are derived from royalty and copyright income and interest. The fund continues to serve the purpose for which it was created, and reflects a clear link between the benefits sought and charges made upon users. The fund does not require any general fund appropriation. However, the fund receives transfers from the Research and Training Revolving Fund, which are recorded as revenues by the fund, to pay for personnel and general operating costs. Thus, the fund is not self-sustaining and does not meet all criteria of a revolving fund.

International Exchange Health Care Tourism Revolving Fund, Section 304A-2265, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers*	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1998 to account for all donations, gifts, contributions, legislative appropriations, and moneys generated by the program through education, training, and research contracts and grants. The fund must be used by the school of medicine and the school of nursing for student aid, training projects, teaching, supplies, services, and activities related to the development and promotion of the program. As reported in our 2001 and 2004 reviews, the fund does not serve the purpose for which it was created. The program has not been implemented due to a lack of staff and funds necessary to conduct a program specifically aimed at bringing in international exchange students. The university has no current plans to use the revolving fund and noted that no international student has been admitted directly into the schools without first attending the university to bolster qualifications. As recommended in our previous reviews, Section 304A-2265, HRS, should be repealed and the fund discontinued.

Research and Training Revolving Fund, Section 304A-2253, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$40,152	\$40,207	\$42,747	\$49,923	\$55,428
Revenues	34,137	34,972	41,887	42,125	43,824
Interest	12	0	0	0	0
Expenditures	(34,072)	(32,397)	(34,684)	(36,616)	(54,240)
Transfers*	(22)	(35)	(27)	(4)	(5,100)
Ending Fund Balance	\$40,207	\$42,747	\$49,923	\$55,428	\$39,912
Encumbrances	\$1,344	\$2,205	\$2,444	\$2,987	\$4,273

*Transfers during fiscal years 2005 through 2008 were related to Internal Service Fund Elimination for Workers' Comp for financial statement purposes. Transfers during FY2008-09 were made to the state Department of Budget and Finance.

This fund was established in 1974 to pay for research and training activities at the university and deposits into the Discoveries and Inventions Revolving Fund and the University of Hawai'i Housing Assistance Revolving Fund. Moneys are used to finance activities such as cost sharing, research or training seed money, travel grants for faculty and staff, start-up requirements, emerging programs, equipment purchases, and other operational expenses related to research and training at the university. Revenues to the fund are from federal and non-federal reimbursements for indirect overhead costs, or those costs incurred by the university that are not attributable to a specific grant, contract, or cooperative agreement. Indirect overhead costs include electricity,

telephone, various facilities expenses, general administration, and general expenses. The fund continues to serve its original purpose and receives no general fund appropriations. However, there is no direct link between the benefit sought and charges made upon beneficiaries since there are no user fees or charges. As such, the fund does not meet all criteria for a revolving fund and should be repealed or reclassified.

Seed Distribution Program Revolving Fund, Section 304A-2263, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$54	\$17	\$10	\$38	\$53
Revenues	44	28	45	46	103
Interest	1	0	1	2	1
Expenditures	(82)	(35)	(18)	(33)	(132)
Transfers	0	0	0	0	0
Ending Fund Balance	\$17	\$10	\$38	\$53	\$25
Encumbrances	\$1	\$0	\$0	\$0	\$0

Originally created in 1975, this fund was established to support the seed distribution program in cultivation and production of vegetable and garden seeds. Revenues are generated through the sale of seeds to farmers, seed companies, and the general public. The fund continues to serve the purpose for which it was created, and reflects a clear link between the benefits sought and charges made upon users. The fund meets the criteria of a revolving fund.

Senator Hiram L. Fong Scholarship Program Endowment Trust Fund, Section 304A-2353, HRS

Section 304A-2353, HRS, authorizes the Board of Regents of the University of Hawai'i to establish a trust fund to account for all transactions relating to the Senator Hiram L. Fong Scholarship Program. The program was intended to provide financial support to qualified students at any campus of the university. To qualify, applicants must be graduates of a public school in the State, upperclassmen at the university, and demonstrate a commitment to local community issues and an interest and knowledge of the history of immigration to Hawai'i. The program was to initially be funded by an appropriation out of the general revenues of the State. However, as the initial funding was never received, the

related trust fund was never established. This fund should be considered for repeal if there is no intent or commitment for funding in the near future.

Senator Oren E. Long Scholarship Program Endowment Trust Fund, Section 304A-2354, HRS

Section 304A-2353, HRS, authorizes the Board of Regents of the University of Hawai‘i to establish a trust fund to account for all transactions relating to the Senator Oren E. Long Scholarship Program. The program was intended to provide financial support to qualified students at any campus of the university. To qualify, applicants must be graduates of a public school in the State, upperclassmen at the university, and submit winning essays to the Board of Regents on the senator’s contributions to Hawai‘i. The program was to initially be funded by an appropriation out of the general revenues of the State. However, as the initial funding was never received, the related trust fund was never established. This fund should be considered for repeal if there is no intent or commitment for funding in the near future.

State Higher Education Loan (Revolving) Fund, Section 304A-2160, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$7,566	\$7,673	\$7,208	\$8,100	\$8,320
Revenues	4	4	4	3	3
Interest	257	305	418	379	184
Expenditures	(154)	(774)	470	(162)	(342)
Transfers	0	0	0	0	0
Ending Fund Balance	\$7,673	\$7,208	\$8,100	\$8,320	\$8,165
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was created in 1969 to provide loans to needy students pursuant to rules and regulations adopted by the Board of Regents. Students enrolled full-time at the university, with at least one year of Hawai‘i residency, were eligible to apply for the program’s loans. Principal and interest payments on the loans are credited to the fund. The fund meets the definition of a revolving fund as there is direct linkage between the benefit sought and the charges made upon users, and the fund continues to serve the purpose for which it was originally created, is an appropriate financing mechanism for the program, and

does not require general fund appropriations. In FY2006, the university overestimated its bad debt expense. As a result, the correction in FY2007 shows an addition to the fund's expenses.

Student Health Center Revolving Fund, Section 304A-2255, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$166	\$318	\$522	\$534	\$349
Revenues	1,983	1,981	2,138	2,116	2,155
Interest	10	21	30	20	7
Expenditures	(1,841)	(1,798)	(2,156)	(2,321)	(2,610)
Transfers	0	0	0	0	0
Ending Fund Balance	\$318	\$522	\$534	\$349	(\$99)
Encumbrances	\$63	\$107	\$55	\$87	\$39

This fund was created in 1974 to account for fees charged for medical services and other related goods and services. Funds are used to provide medical care to students and the campus community at minimal cost. Medical care includes routine medical services, physical therapy, medication, and medical supplies. A direct link exists between the benefits sought and the charges made upon the users because students and other campus community individuals who receive services are charged fees which are deposited into the fund. However, the fund is not self-sufficient as general fund appropriations are needed to cover administrative costs and therefore the fund does not meet all criteria of a revolving fund. This situation was reported in 2000 and again in 2004.

The university reports that its proposal for a five-year incremental increase of the mandatory student health fee was approved effective Spring 2009.

Transcript and Diploma Revolving Fund, Section 304A-2256, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$353	\$367	\$341	\$380	\$401
Revenues	287	331	384	429	467
Interest	9	13	16	16	10
Expenditures	(282)	(370)	(361)	(424)	(353)
Transfers	0	0	0	0	0
Ending Fund Balance	\$367	\$341	\$380	\$401	\$525
Encumbrances	\$80	\$58	\$56	\$4	\$21

This fund was established in 1974 to defray the costs of producing and issuing transcripts and diplomas. Revenues are generated from fees charged for transcript requests and applications for graduation, and funds are expended to cover the cost of preparing and distributing diplomas, covers, and transcripts. There is a clear link between the benefit sought and the charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund therefore meets the criteria of a revolving fund.

University of Hawai'i Alumni Revolving Fund, Section 304A-2259, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$14	\$10	\$11	\$14	\$33
Revenues	13	16	23	27	14
Interest	0	1	1	1	0
Expenditures	(17)	(16)	(21)	(9)	(45)
Transfers	0	0	0	0	0
Ending Fund Balance	\$10	\$11	\$14	\$33	\$2
Encumbrances	\$0	\$2	\$0	\$2	\$0

This revolving fund was established in 1991 to account for revenues and expenditures associated with university-managed alumni events. In 2003, the purpose of the fund was transferred to the University of Hawai'i Foundation. Currently, the fund is used to support the

operations of *Mālamalama*, the alumni magazine. This situation was previously reported in 2004. Although the fund does not require general fund appropriations, the fund no longer serves the purpose for which it was created and should be repealed.

University of Hawai'i at Hilo Hawaiian Language College Revolving Fund, Section 304A-2270, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$10	\$26	\$31	\$35	\$45
Revenues	15	4	2	16	14
Interest	1	1	2	1	1
Expenditures	0	0	0	(7)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$26	\$31	\$35	\$45	\$60
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1997 to account for revenues derived from the sale of Hawaiian language materials to students, teachers, and schools. Funds are used to support the University of Hawai'i at Hilo's Hawaiian Language College with the development and production of Hawaiian language materials and resources for educational purposes. The fund continues to serve the purpose for which it was created. There is a clear link between the benefits sought and charges made upon the users of the system. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund meets all the criteria of a revolving fund.

University of Hawai'i at Hilo Intercollegiate Athletics Revolving Fund, Section 304A-2261, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$23	\$38	\$20	\$44	\$83
Revenues	193	164	204	271	210
Interest	2	2	2	3	2
Expenditures	(180)	(184)	(182)	(227)	(141)
Transfers*	0	0	0	(8)	0
Ending Fund Balance	\$38	\$20	\$44	\$83	\$154
Encumbrances	\$13	\$1	\$11	\$7	\$2

*Transfer in FY2008 was to the baseball scholarship fund to partially fund scholarship awards.

This fund was established in 1985 to account for revenues and expenditures associated with the University of Hawai'i at Hilo intercollegiate athletics program. Revenues are derived from game and season ticket sales, concessions, promotional sponsors, souvenirs, camp tuition, clinics, program booklet advertising sales, and radio and television rights. These revenue sources provide ongoing support for the University of Hawai'i at Hilo's athletic programs. The fund continues to serve its original purpose and there is a direct link between the benefits sought and the charges made upon users of the program. However, general fund appropriations are still needed to fund personnel costs and therefore the fund is not self-sustaining. This fund does not meet all the criteria of a revolving fund.

University of Hawai'i-Hilo Theatre Revolving Fund, Section 304A-2271, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$66	\$117	\$94	\$80	\$79
Revenues	150	160	120	162	152
Interest	3	4	4	3	2
Expenditures	(102)	(187)	(138)	(166)	(152)
Transfers	0	0	0	0	0
Ending Fund Balance	\$117	\$94	\$80	\$79	\$81
Encumbrances	\$4	\$19	\$1	\$4	\$9

This fund was established in 1997 to support performing arts events. Moneys are used to finance activities related to producing and presenting performing arts events including artist fees, production costs, personnel costs, hotel and room rentals, food and refreshments, and advertising. Revenues are derived from related admissions, advertising sales, sponsorships, and merchandising. The fund continues to serve the original purpose for which it was created. There is a clear link between the benefits sought and charges made upon users of the program. However, the fund is not self-sustaining as it relies on general fund appropriations to fund payroll costs. As such, the fund does not meet all the criteria of a revolving fund.

University of Hawai'i at Mānoa Intercollegiate Revolving Fund, Section 304A-2261, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	(\$6,599)	(\$6,727)	(\$5,954)	(\$6,052)	(\$4,588)
Revenues	15,731	16,406	17,973	22,277	17,698
Interest	(53)	(126)	(148)	(79)	(72)
Expenditures	(15,806)	(16,426)	(18,745)	(21,657)	(20,960)
Transfers*	0	919	822	923	1,299
Ending Fund Balance	(\$6,727)	(\$5,954)	(\$6,052)	(\$4,588)	(\$6,623)
Encumbrances	\$135	\$463	\$426	\$396	\$264

*Transfers represent general fund appropriations to assist with expenses, licensing royalties, and reimbursements for tuition that the fund paid for student athletes.

This fund was established in 1985 to account for revenues and activities related to the University of Hawai'i at Mānoa's athletic programs and facilities. User fees are charged for athletic program activities and athletic facilities use. There is a clear link between the benefits sought and charges made upon users. The fund continues to serve the purpose for which it was created. However, the fund does not meet the criteria of a revolving fund as it is not self-sustaining, receiving annual general fund appropriations to support payroll costs. Additionally, since FY2005-06, the fund has received general fund appropriations to assist with operating expenses including licensing royalties and reimbursement of student athlete tuitions. The fund has also reported deficit ending balances since FY2001-02.

University of Hawai'i at Mānoa Laboratory School Summer Programs Revolving Fund, Section 304A-2266, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$149	\$135	\$172	\$121	\$223
Revenues	128	188	104	270	179
Interest	1	2	2	1	4
Expenditures	(143)	(153)	(157)	(169)	(264)
Transfers	0	0	0	0	0
Ending Fund Balance	\$135	\$172	\$121	\$223	\$142
Encumbrances	\$8	\$17	\$7	\$21	\$24

This fund was established in 1994 to support the operation of a summer school program of Curriculum Research & Development Group at the University of Hawai'i at Mānoa Laboratory School. The program serves as a venue for the research, design, and development of curriculum for students in grades three through 12. The fund continues to serve the purpose for which it was created. There is a clear link between the benefits sought and the charges made upon the users as tuition is collected to support the cost of all personnel, supplies, and activities of the program. In addition, the fund is self-sustaining and does not require general fund appropriations. The fund meets all criteria of a revolving fund.

University of Hawai'i Graduate Application Revolving Fund, Section 304A-2260, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$73	\$164	\$187	\$121	\$115
Revenues	341	346	340	348	438
Interest	3	7	8	4	3
Expenditures	(253)	(330)	(414)	(358)	(463)
Transfers	0	0	0	0	0
Ending Fund Balance	\$164	\$187	\$121	\$115	\$93
Encumbrances	\$3	\$11	\$10	\$11	\$15

This fund was established in 1995 to account for the receipts and expenditures of processing graduate applications. Moneys are expended for preparing, distributing, and processing graduate applications and application materials. Revenues to the fund are from graduate application fees. The fund continues to serve the purpose for which it was created and there is a clear link between the benefits sought and charges made upon the users of the fund. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund meets all the criteria of a revolving fund.

University of Hawai'i Housing Assistance Revolving Fund, Section 304A-2258, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$25	\$26	\$27	\$28	\$29
Revenues	0	0	0	0	0
Interest	1	1	1	1	1
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$26	\$27	\$28	\$29	\$30
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1991 to implement the University of Hawai'i Faculty Housing Assistance Master Plan and account for all transactions of the University of Hawai'i Housing Assistance Program.

However, during FY2001-02, the balance of the fund was transferred to the Mānoa Faculty Housing Program. In FY2003-04, a \$25,440 interest adjustment was posted to the fund. This was an error and the entire current balance in the fund is to be transferred to the Mānoa Faculty Housing Program. As the fund has otherwise been inactive over the past six fiscal years, it should be repealed.

University of Hawai'i Real Property and Facilities Use Revolving Fund, Section 304A-2274, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$228	\$404	\$486	\$540	\$659
Revenues	170	75	59	128	165
Interest	9	15	21	22	15
Expenditures	(3)	(8)	(26)	(31)	(85)
Transfers	0	0	0	0	0
Ending Fund Balance	\$404	\$486	\$540	\$659	\$754
Encumbrances	\$0	\$25	\$22	\$2	\$25

This fund was created in 1998 to account for revenues collected for the use of university property and facilities. The fund supports the maintenance of the agricultural plots and boundaries of the Urban Garden Center, maintenance of the College of Tropical Agriculture and Human Resources facilities, and supports research and demonstration projects on college facilities. Funds are used to purchase agricultural supplies, maintain or replace equipment, offset costs to operate facilities, and obtain contractor services. The fund continues to serve the purpose for which it was created. There is a clear link between the benefits sought and the charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund meets all criteria of a revolving fund.

University of Hawai'i Student Activities Revolving Fund, Section 304A-2257, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$2,591	\$3,044	\$3,339	\$3,838	\$4,181
Revenues	3,261	3,614	3,743	3,741	4,620
Interest	230	274	325	318	212
Expenditures	(3,077)	(3,617)	(3,586)	(3,688)	(3,723)
Transfers*	39	24	17	(28)	(32)
Ending Fund Balance	\$3,044	\$3,339	\$3,838	\$4,181	\$5,258
Encumbrances	\$255	\$153	\$156	\$252	\$205

*Transfers were made to and from the various University of Hawai'i funds.

This fund was established in 1980 to support student activities, campus sponsored activities, and student organizations. This fund consists of separate internal funds established for each campus unit, including the University of Hawai'i at Mānoa, University of Hawai'i at Hilo, University of Hawai'i West O'ahu, and the community colleges. Revenues are generated through mandatory fees assessed of enrolled students each semester. Additional revenues are from fees assessed for individual events and the sale of advertising space and subscriptions to student publications. There is a clear link between the benefit sought and charges made upon users. In addition the fund is self-sustaining and does not require any general fund appropriations. The fund therefore meets all criteria of a revolving fund.

**University of Hawai'i Workers' Compensation and
Unemployment Insurance Compensation Trust Fund,
Section 304A-2352, HRS**

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	(\$9,850)	(\$10,191)	(\$6,933)	(\$4,528)	(\$8,264)
Revenues	0	0	0	0	5,535
Interest	64	113	208	172	89
Expenditures	0	0	0	0	(4,647)
Transfers*	(405)	3,145	2,197	(3,908)	0
Ending Fund Balance	(\$10,191)	(\$6,933)	(\$4,528)	(\$8,264)	(\$7,287)
Encumbrances	\$500	\$703	\$399	\$1,058	\$639

*Transfers reflect actual payments or expenditures made on behalf of the university, net of the funding by payroll assessment, as well as adjustments for financial reporting purposes. For fiscal years 2005 to 2008, the university did not provide an accurate breakdown of insurance-related payments versus assessments, as reflected for FY2009.

This fund was originally established in 1998 as a revolving fund to pay for employee's workers' compensation and unemployment insurance benefits. In 2002, Act 178 amended the fund, designating it as a trust fund. Revenues are generated by fringe benefit rates that are charged against all university payroll funds. The rates for workers' compensation and unemployment insurance are adjusted annually to reflect future anticipated expenditures. Funds are then used to pay for workers' compensation and unemployment insurance claims made by employees.

The university reports that the significant fund balance deficits are due to "incurred but not reported" liabilities, which represent actuarially determined reserves accrued for claims related to events that have transpired but have yet to be reported. As these liabilities are recorded for financial statement purposes only, the fund does maintain positive cash balances, including holdings of \$5,172,000 at June 30, 2009. The fund appears to meet the criteria of a trust fund as it requires no general fund appropriations and serves the purpose for which it was originally created.

University Parking Revolving Fund – UH Hilo, Section 304A-2275, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$65	\$99	\$107	\$115	(\$215)
Revenues	236	244	262	248	285
Interest	1	7	8	7	1
Expenditures	(203)	(243)	(262)	(585)	(73)
Transfers	0	0	0	0	0
Ending Fund Balance	\$99	\$107	\$115	(\$215)	(\$2)
Encumbrances	\$3	\$23	\$38	\$42	\$4

This fund was established in 1964 to account for parking fees and fines assessed for designated parking areas at the University of Hawai'i at Hilo campus. Revenues support parking office operational costs and parking lot repair and maintenance costs. In FY2007-08, there was a significant increase in the cost of the parking security contract, as well as in ceded land payments to the Office of Hawaiian Affairs, which included retroactive amounts. A parking task force is scheduled to convene in the Fall of 2009 to consider increasing fees to cover all necessary costs, including future ceded land payments. The fund continues to serve the purpose for which it was created. There is a clear link between the benefits sought and charges made upon the users of the system. In addition, the fund is self-sustaining and does not require general fund appropriations. The fund meets all criteria of a revolving fund.

Unrestricted Quasi-Endowment Income and Scholarship Revolving Fund, Section 304A-2003, HRS

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$436	\$818	\$1,174	\$1,737	\$2,148
Revenues	47	32	38	42	(19)
Interest	649	721	871	845	62
Expenditures	(662)	(669)	(634)	(715)	(539)
Transfers*	348	272	288	239	13
Ending Fund Balance	\$818	\$1,174	\$1,737	\$2,148	\$1,665
Encumbrances	\$25	\$15	\$65	\$25	\$30

*Transfers represent collegiate licensing royalties from UH system net of transfers to the Mānoa investment pool account. FY2008 included a transfer from the Baseball Operating Revolving Fund to cover scholarship shortfall.

Established in 1994, this fund is comprised of a statewide account and individual accounts for the University of Hawai‘i at Mānoa, University of Hawai‘i at Hilo, and community colleges. The purpose of the fund includes accounting for the intercollegiate athletic scholarship program, community college property lease revenue, and the Mānoa campus athletic department’s allocation from the Stadium Endowment Fund. Revenues are derived from public donations, fund drives, lease rental income, and the Stadium Endowment Fund.

This fund was repealed pursuant to Act 75, SLH 2006. While most of the university’s revolving funds were specifically re-established as of July 1, 2006, under Section 304A, HRS, this particular fund was not. The university continues to use this fund, basing the fund’s authority on Section 304A-2003, HRS. However, this section only describes how the university is to handle appropriations, deposits, and accounts in general terms and does not specifically establish any revolving funds. Further, Section 37-52.4, HRS, states, “Revolving funds shall only be established pursuant to an act of the legislature.” As such, the university has improperly maintained this fund since FY2007 and should terminate it and properly disburse the remaining moneys.

Funds and Accounts Established Under Administrative Authority

Agency Fund

Financial Data for Fiscal Years 2007-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	221	5,025	414	595	1,325
Interest	0	0	0	0	0
Expenditures	(221)	(5,025)	(414)	(595)	(1,325)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust account was administratively established as a temporary holding account for cash, receivables, temporary investments, and amounts due from other fund groups held by the University of Hawai'i. The account receives cash deposits for equipment, musical instruments, library carrels and lockers, faculty housing, and long distance telephone service. The university acts as the custodian for these funds, repaying deposits as they are due. This account meets the criteria of a trust account, as it requires no general fund appropriations and continues to serve the purpose for which it was originally created.

Endowment Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$56,972	\$57,829	\$60,506	\$63,580	\$64,633
Revenues	1,566	2,980	3,452	1,335	(4,649)
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers*	(709)	(303)	(378)	(282)	4
Ending Fund Balance	\$57,829	\$60,506	\$63,580	\$64,633	\$59,988
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers represent endowment fund distributions (net) and unspent moneys returned to the fund.

This trust fund was created in 1925 to support university students through donor and Board of Regent scholarships. Donor scholarships include scholarships for the School of Medicine and the College of Engineering. Board of Regents scholarships include the President's and the Board's scholarships for Hawai'i's top high school graduates, as well as scholarships for the Mānoa and Hilo athletic programs. Revenues are derived from gifts and grants made by private donors or government agencies. The fund meets the definition of a trust fund, as it continues to serve the purpose for which it was originally created and provides designated beneficiaries with scholarships.

Unexpended Plant Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$5	(\$49)	(\$44)	(\$37)	\$708
Revenues	227	97	122	1,302	(246)
Interest	46	59	72	64	35
Expenditures	(327)	(151)	(187)	(621)	(289)
Transfers	0	0	0	0	0
Ending Fund Balance	(\$49)	(\$44)	(\$37)	\$708	\$208
Encumbrances	\$67	\$32	\$22	\$128	\$196

This trust account was established in 1990 as a temporary holding account for funds to acquire physical properties institutional purposes but unexpended at the date of reporting. Revenues are derived from fees assessed to foreign governments, private agencies, and users of the Institute of Astronomy facilities. Funds are used to support telescope and infrastructure development for programs such as the Institute for Astronomy and replacing buildings and equipment. The fund meets the criteria of a trust account, as it continues to serve its original purpose and does not require general fund appropriations.

University of Hawai'i – East-West Center Support Trust Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$806	\$838	\$881	\$933	\$981
Revenues	113	48	41	61	80
Interest	32	43	52	47	25
Expenditures	(113)	(48)	(41)	(60)	(80)
Transfers	0	0	0	0	0
Ending Fund Balance	\$838	\$881	\$933	\$981	\$1,006
Encumbrances	\$1	\$4	\$0	\$2	\$2

This fund was established in 1980 to promote cooperative and collaborative data collection and research projects between the University of Hawai'i and the East-West Center. Revenues are derived from contracts between the East-West Center and the University of Hawai'i for the usage of university facilities, libraries, faculty, research, security, computer, and health services. The fund meets the criteria of a trust fund, as it requires no general fund appropriations and serves the purpose for which it was originally created.

University of Hawai'i Financial Aid Scholarships Trust Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$999	\$1,037	\$991	\$1,071	\$1,143
Revenues	11	10	115	6	0
Interest	448	416	460	440	20
Expenditures	(421)	(472)	(489)	(374)	(248)
Transfers*	0	0	(6)	0	0
Ending Fund Balance	\$1,037	\$991	\$1,071	\$1,143	\$915
Encumbrances	\$0	\$10	\$0	\$0	\$27

*Transfer represents the return of unused income distributions to the Endowment Fund.

These funds were established in 1925 to award financial aid scholarships to students based on scholastic achievement and financial need. Trust funds have been established at each University of Hawai'i campus. Scholarships recipients are not expected to repay the awards. Revenues

are derived from gifts, donations, and funds transferred from endowment funds. The fund meets the criteria of a trust fund, as it does not require general fund appropriations and serves the purpose for which it was originally created.

University of Hawai'i Gifts and Donations Trust Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$1,787	\$1,923	\$1,847	\$1,817	\$1,649
Revenues	10	7	2	1,142	8
Interest	192	266	342	339	32
Expenditures	(387)	(336)	(455)	(1,733)	(212)
Transfers*	321	(13)	81	84	0
Ending Fund Balance	\$1,923	\$1,847	\$1,817	\$1,649	\$1,477
Encumbrances	\$46	\$3	\$3	\$0	\$21

*Transfers were made to and from the Quasi-Endowment Fund for the reinvestment of excess endowment funds.

This fund was established in 1925 to account for gifts and donations received directly from private individuals and organizations or indirectly from the University of Hawai'i Foundation and Board of Regents managed endowment funds. Gifts are in the form of cash, securities, real estate, or personal property. Programs supported by the fund include the Student Employee of the Year Program, and various cooperative educational projects, Papaya Research and Development, Nematode Control in Pineapple, and the Academy of International Business. The fund serves students and faculty who benefit from the gifts and donations. The fund meets the criteria of a trust fund, as it requires no general fund appropriations and serves the purpose for which it was originally created.

University of Hawai'i Intercollegiate Athletics Scholarships Trust Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance*	\$2,081	\$1,827	\$1,060	\$641	(\$760)
Revenues	2,268	1,618	4,427	3,724	5,025
Interest	36	29	7	(2)	(6)
Expenditures	(2,558)	(2,414)	(4,853)	(5,123)	(5,394)
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,827	\$1,060	\$641	(\$760)	(\$1,135)
Encumbrances	\$1	\$2	\$0	\$3	\$3

*The agency reported an ending balance for FY2004 of \$774 based on estimates at the time. The beginning balance for FY2005 is based on actual amounts.

This fund was established in 1985 to account for private gifts and donations for the purpose of providing scholarships for university athletics and to provide financial support for the university's program objectives. The fund continues to serve its intended purpose by servicing approximately 440 student athletes and awarding up to 240 academic scholarships annually. Revenue is derived from private gifts and donations. Although the fund does not receive general fund appropriations, it is not self-sustaining as expenditures have exceeded revenues in recent years. The fund does not meet all criteria of a trust fund.

University of Hawai'i Okinawa Program Trust Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$25	\$17	\$7	\$4	\$3
Revenues	5,635	4,371	3,967	4,451	3,150
Interest	1	0	0	0	0
Expenditures	(5,644)	(4,381)	(3,970)	(4,452)	(3,150)
Transfers	0	0	0	0	0
Ending Fund Balance	\$17	\$7	\$4	\$3	\$3
Encumbrances	\$603	\$698	\$924	\$869	\$432

This fund was established in 1968 to account for the revenues and expenditures to administer a Western-style postgraduate medical educational program at the Okinawa Prefectural Chubu Hospital in Okinawa, Japan. Revenue for the program is derived from the Okinawa Prefecture. The university's school of medicine expends the moneys for postgraduate medical training to residents at the hospital. The beneficiaries are the Okinawa Prefecture community and the medical residents who train at the hospital. The fund meets the criteria of a trust fund as it requires no general fund appropriations and serves the purpose for which it was originally created.

University of Hawai'i Press Revolving Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$2,564	\$2,308	\$2,324	\$2,483	\$2,442
Revenues	4,549	5,003	4,879	4,698	4,389
Interest	46	58	74	78	40
Expenditures	(4,851)	(5,045)	(4,794)	(4,817)	(4,369)
Transfers	0	0	0	0	0
Ending Fund Balance	\$2,308	\$2,324	\$2,483	\$2,442	\$2,502
Encumbrances	\$729	\$306	\$309	\$580	\$568

This fund was established in 1970 to account for all sales receipts of the University of Hawai'i Press, which are then used to support publishing costs. Fund activities include the publication of books, journals, maps, and electronic media under the University of Hawai'i Press imprint. Revenues are derived from publication and production service charges and pay for business related activities and payroll.

There is a clear link between the benefits sought and charges made upon users. Although general funds are used to support the salaries of nine core positions, the fund is self-sustaining due to its substantial cash balance. The fund appears to meet all criteria of a revolving fund; however, in accordance with Section 37-52.4, HRS, "Revolving funds shall only be established pursuant to an act of the legislature." As this fund was administratively established by the university, the university should seek legislative authority for this revolving fund or terminate it and properly disburse of the related moneys.

University of Hawai'i Private Funded Contracts and Grants Trust Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$1,291	\$1,261	\$1,339	\$1,533	\$1,458
Revenues	40,470	46,333	51,449	59,878	65,396
Interest	58	78	88	84	63
Expenditures	(40,558)	(46,333)	(51,343)	(60,037)	(65,426)
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,261	\$1,339	\$1,533	\$1,458	\$1,491
Encumbrances	\$1,991	\$1,680	\$2,673	\$6,027	\$4,473

This fund was established in 1919 to account for revenues and expenditures for sponsored research and training contracts from non-federal government entities. Revenues are derived from state agencies, private individuals, organizations, and foundations. Funds are used for specific research and training services by faculty and staff in accordance with award terms and conditions. The fund meets the criteria of a trust fund, as it requires no general fund appropriations and serves the purpose for which it was originally created.

University of Hawai'i Short-Term Loans Trust Fund

Financial Data for Fiscal Years 2005-2009 (in thousands)

	FY2005	FY2006	FY2007	FY2008	FY2009
Beginning Fund Balance	\$260	\$265	\$276	\$287	\$292
Revenues	0	0	0	0	0
Interest	5	8	12	12	(5)
Expenditures	0	3	(1)	(7)	(3)
Transfers	0	0	0	0	0
Ending Fund Balance	\$265	\$276	\$287	\$292	\$284
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established to provide students with emergency loans to meet expenses incident to their schooling. Revenues are derived from private gifts and donations. Loans are restricted to educational costs not exceeding \$100; however, exceptions may be approved by the director of financial aid. Loans are not subject to a finance or service charge but

must be paid within 60 days. The fund meets the criteria of a trust fund, as it requires no general fund appropriations and serves the purpose for which it was originally created.

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Responses of the Affected Agencies

Comments on Agency Responses

On December 3, 2009, we transmitted a draft of this review to the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai‘i. A copy of the transmittal letter to the Department of Attorney General is included as Attachment 1. Similar transmittal letters were sent to the Department of Business, Economic Development & Tourism, and the University of Hawai‘i. A copy of the responses of the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai‘i are included as Attachments 2, 3, and 4, respectively.

The Department of the Attorney General disagrees with our conclusion that the Antitrust Trust Fund does not meet the definition of a trust fund. However, the department does not provide a logical explanation as to how the fund meets the State’s definition of a trust fund—“a fund in which designated persons or classes of persons have a vested beneficial interest or equitable ownership ...” Moneys in the fund are used to support antitrust law enforcement programs and are not held for any specific persons or classes of persons, even though these programs may benefit the public at large. The department also disagrees with our conclusion that the Criminal Forfeiture Revolving Fund does not meet all four criteria of a revolving fund, as there is no direct linkage between the benefits sought and the charges made upon users of the program. The department stated the fund meets the linkage criteria as the program is funded by criminal forfeitures, which are really charges assessed on the criminals, who are “users” of the criminal justice system. The department’s own logic defies the concept of “clear” linkage, reasoning that proceeds from assets seized from criminals are used to fund future seizure and forfeiture efforts, including training and equipment expenditures, which benefits the people of Hawai‘i, which includes the users of the criminal justice system, which further includes those whose property is forfeited.

The Department of Business, Economic Development & Tourism disagreed with several of our conclusions and recommendations, including our conclusion that the Hawai‘i Community-Based Economic Development (CBED) Revolving Fund is not self-sustaining and that the grant and technical assistance programs do not demonstrate a direct link between benefits sought and user charges as there are no user fees or charges. The department explains in detail why the fund is self-sufficient and that administrative fees can be charged on grants and loans. However, in a questionnaire completed as part of our review,

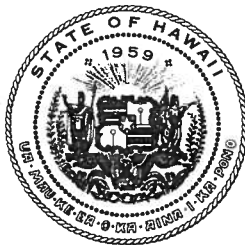
the department stated “the CBED Revolving Fund is not financially self-sustaining. Administrative expenses and salaries are funded from General Funds.” The department further provided details of general funds received, either via the CBED Program or directly from the Legislature, totaling \$190,000 from FY2005 to FY2009. This is significant considering total program revenues and interest during that same period was only \$49,000, as compared to total expenditures of \$508,000. The department also stated it disagreed with our conclusion and recommendation regarding the Brownfields Cleanup Revolving Loan Fund. This is perplexing as we draw no conclusions and make no recommendations regarding this fund due to the lack of financial activity during the 5-year period under review.

The department also disagrees with several findings related to funds administered by the Hawai‘i Housing Finance and Development Corporation (HHFDC). For two funds (the Rental Assistance Revolving Fund and the Rental Housing Trust Fund), the department disputes our conclusions that the funds do not meet all the respective criteria as their programs meet legislative intent. However, in addition to meeting legislative intent, our review evaluates funds based on other criteria, including whether they meet the fund-type definition. Revolving funds must have a clear link between benefits sought and charges made upon users and trust funds must have a designated person or classes of persons with a vested beneficial interest. The failure of these funds to meet these criteria is unaddressed in the department’s response.

The department further identifies six additional funds administered by HHFDC that it states should not have been included in our review as they are special funds, not revolving funds as reported by us. However, each of these funds is classified as a revolving fund within the State’s general ledger system – the Financial Accounting and Management Information System – and is therefore included in our review. The department should work with the Department of Accounting and General Services to properly reclassify these funds. Additionally, even if these *administratively* established funds were truly special funds, our finding that they were improperly established still applies as Sections 37-52.3 and 37-52.4, Hawai‘i Revised Statutes, require that revolving funds *and* special funds can be established only by an act of the Legislature.

The University of Hawai‘i did not disagree with any of our findings. The university did submit details of the corrective actions it plans to take in response to our findings, which appear to be appropriate.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii'i 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

December 3, 2009

COPY

The Honorable Mark J. Bennett
Attorney General
Department of the Attorney General
Hale Auhau
425 Queen Street
Honolulu, Hawaii'i 96813

Dear Mr. Bennett:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Review of Revolving Funds, Trust Funds, and Trust Accounts for the Departments of the Attorney General and Business, Economic Development & Tourism and the University of Hawaii'i*. We ask that you telephone us by Monday, December 7, 2009, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, December 14, 2009.

The Department of Business, Economic Development & Tourism, University of Hawaii'i, Board of Regents of the University of Hawaii'i, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

LINDA LINGLE
GOVERNOR



MARK J. BENNETT
ATTORNEY GENERAL

LISA M. GINOZA
FIRST DEPUTY ATTORNEY GENERAL

STATE OF HAWAII
DEPARTMENT OF THE ATTORNEY GENERAL
425 QUEEN STREET
HONOLULU, HAWAII 96813
(808) 586-1500

December 14, 2009

The Honorable Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813

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2009 DEC 14 PM 2:33

OFC. OF THE AUDITOR
STATE OF HAWAII

Re: Review of Revolving Funds, Trust Funds, and Trust
Accounts for the Department of the Attorney General

Dear Ms. Higa:

Thank you for the opportunity to comment on your draft report. We have reviewed the report and respectfully provide the following comments:

Antitrust Trust Fund

The draft report states:

The fund continues to serve its original purpose. However, the fund does not meet the definition of a trust fund as there are no designated persons or classes of persons having a vested beneficial interest or equitable ownership in the assets of the fund.

There appears to be a misunderstanding regarding the fund and its role in the law enforcement mission of the Department of the Attorney General. Your Report No. 04-13 made a similar finding, and we responded similarly in a letter dated December 7, 2004.

By statute, the Attorney General is tasked to enforce the criminal and civil provisions of the Hawaii Antitrust Law. Accordingly, the Attorney General is authorized to conduct investigations, *inter alia*, when the Attorney General believes an investigation is in the public interest, and authorized to bring actions on behalf of the State or a county, as well as actions as *parens patriae* on behalf of natural persons *qua* indirect purchasers.

The purpose of the fund is "for expenditures relating to the enforcement of antitrust laws" Section 28-13(c), Hawaii Revised Statutes. Because of this law enforcement function, the class of persons benefited by the fund can include natural persons, businesses, and state and local government. Moreover, fostering this law enforcement function benefits the economy and the public interest. This fund, therefore, falls within the definition of a trust fund.

Criminal Forfeiture Revolving Fund

The draft report states:

[T]he fund continues to serve the purpose for which it was created and is financially self-sustaining since it does not require general fund appropriations. However, we have repeatedly determined that there is no clear, direct, linkage between the benefits sought and charges made upon the users or beneficiaries of the program. Criminals whose property is seized receive no benefit from the property seizure and disposal and related efforts. As previously noted, this fund does not meet the established criteria for a revolving fund.

The Criminal Forfeiture Fund is funded through the seizure and forfeiture of assets that represent the proceeds of crimes or were used to facilitate crimes. The forfeiture program enhances public safety and improves the criminal justice system by deterring crime and improving the capacity of law enforcement agencies. The Legislature found that forfeiture serves as an "immediate deterrent from future illegal activity" and that "every lawful weapon in the war on crime that does not entail additional expenditure of public moneys or incarceration of additional inmates should and must be used to the fullest extent possible." Senate Standing Committee Report No. 2731 (1996).

Thus, the beneficiaries of this program are the people of Hawaii and the users of the criminal justice system, including those whose property is forfeited. And there is a clear linkage between the benefits sought (crime reduction and deterrence) and the charges made (assets representing the proceeds of crimes, and property, firearms, and other items used to commit crimes). This fund, therefore, falls within the definition of a revolving fund.

The Honorable Marion M. Higa

December 14, 2009

Page 3 of 3

The Department has consistently held this view. In a letter dated February 16, 2000, in response to a draft of your Report No. 00-07, then-Attorney General Earl Anzai wrote:

[W]e believe that the fund meets this linkage criteria The program is funded by criminal forfeitures, which are really charges assessed on the criminals, who are "users" of the criminal justice system.

We reiterated this view in a letter dated December 7, 2004, in response to your draft Report No. 04-13, and we continue to hold this view.

Edward Byrne Memorial Justice Assistance Grant

The draft report states:

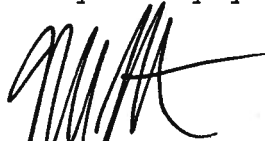
[T]he fund does not meet the definition of a trust fund or trust account, as there are no designated persons with a vested beneficial interest or equitable ownership, and the fund does not serve as a mere holding or clearing account.

This fund was established as a trust fund because Special Condition 12 of the fiscal year 2005 Edward Byrne Memorial Justice Assistance Grant award from the Department of Justice stated: "The recipient is required to establish a trust fund account. (The trust fund may or may not be an interest-bearing account.)"

As the federal definition of trust fund differs from the state definition, we will reclassify this as a special fund in future financial reports.

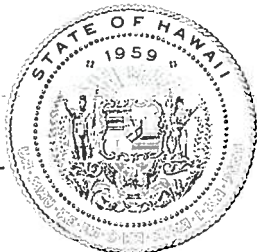
Thank you for your consideration of this letter.

Very truly yours,



Mark J. Bennett
Attorney General

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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December 14, 2009

Ms. Marion M. Higa
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

RECEIVED

2009 DEC 14 PM 2:38

OFC. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

This letter is the response of the Department of Business, Economic Development & Tourism (DBEDT) to the draft report *Review of Revolving Funds, Trust Funds and Trust Accounts for the Departments of the Attorney General and Business, Economic Development & Tourism and the University of Hawaii*.

We suggest further discussion of the specific responses below prior to issuance of the final report. As specifically noted below, there are a number of inaccuracies in the Auditor's interpretations of certain funds and accounts and, therefore, those recommendations are not supported by the review.

Each fund or account on which the Department has comment is addressed separately below.

Community-Based Economic Development (CBED) Revolving Fund¹

The Auditor cites the CBED Revolving Fund as "...not meet(ing) all of the criteria of a revolving fund," and, "...the fund does not demonstrate the ability to be self-sustaining, receiving regular infusions of general funds for salaries and administrative expenses." The Auditor further states, "Additionally, there are no user fees under the fund's grant and technical assistance programs, and therefore no direct link between the benefits sought and user charges." The resulting Auditor's recommendation is to repeal the fund and budget through the general fund.

The CBED Revolving Fund does not receive infusions of general funds for salaries and administrative expenses. Salaries and administrative expenses are budgeted in BED100, the program in which the fund is managed and is separate from the revolving fund. The fund was never intended to cover salaries and administrative expenses. Transfers out of the revolving fund are strictly for grants and loans made directly to the program beneficiaries.

Secondly, recent legislation has allowed the CBED Revolving Fund to receive funds from outside sources in addition to general funds. As a result, DBEDT has received funds

¹ Pages 25 to 26

from a Department of Health settlement case. This one-time influx of settlement funds will be deployed through the CBED revolving fund to provide grants and loans that are consistent with the CBED program mandate and the settlement. Administrative expenses can be charged for expenses related to the disbursement of the grants and loans made with the settlement funds, and these user charges will be deposited into the revolving fund.

Finally, the CBED fund is statutorily authorized to make loans. No loans are currently outstanding due to the low fund balance. However, the recently-authorized capability to receive funds from sources other than general funds enhances the financial ability of the program to make loans. The vehicle of a revolving fund needs to be maintained in order to make such loans and to receive principal and interest payments into the fund.

DBEDT does not agree with the Auditor's recommendation.

Brownfields Cleanup Revolving Loan Fund²

The Auditor's description of the Brownfields Cleanup Revolving Loan Fund is inaccurate. On June 10, 2009, the Office of Planning executed a loan for \$1.97 million to the Department of Hawaiian Home Lands, with the approval of the State Department of Health, Hazard Evaluation and Emergency Response Office, and the U.S. Environmental Protection Agency, for the cleanup of a former pesticide mixing and loading zone in East Kapolei. The first disbursement under the loan agreement was made on August 7, 2009. The fund is intended to be self-sustaining with moneys being used to cover legal costs of fund and site management. To effectuate this goal, the loan agreement requires payment of oversight costs by the borrower. The vehicle of a revolving fund needs to be maintained in order to make such loans and to receive principal and interest payments into the fund.

DBEDT does not agree with the Auditor's recommendation.

Funds Administered by the Hawaii Housing Finance and Development Corporation (HHFDC)³

Several of the HHFDC funds included in this review are special funds and not revolving or trust funds or trust accounts. In addition, HHFDC believes that the Rental Assistance Payments Revolving Fund and the Rental Housing Trust Fund do meet the requirements of the funds. DBEDT does not agree with the Auditor's recommendations on these specific funds or accounts. All of the funds and accounts reviewed and the responses are summarized in the following table and further discussed in detail below:

² Pages 20 and 21

³ Pages 21, 22, 28 – 32, 34, 37, 38, 42, 44, 45

Fund Name	Auditor's Recommendation	HHFDC Position
1. Dwelling Unit Revolving Fund	Meets revolving fund criteria	Concur
2. Fee Simple Residential Rev. Fund	Meets revolving fund criteria	Concur
3. Housing Finance Revolving Fund	Meets revolving fund criteria	Concur
4. Kikala-Keokea Housing Revolving Fund	Self-sustainability unknown until program is implemented	Concur; no loans made to date.
5. Rental Assistance Revolving Fund ▪Interim Construction ▪Rental Assistance Payments	▪Clear link between benefits sought and user charges; self-sustaining ▪No linkage; program should be budgeted through general fund	▪Concur ▪Disagree. Program is meeting legislative intent; approximately \$54.6 million in long-term commitments.
6. Rental Housing Trust Fund	Does not meet definition of trust fund; repeal or reclassify fund	Disagree. Fund is meeting legislative intent; over 3,900 renter households are beneficiaries.
7. Broadened Homesite Ownership Special Fund	Fund terminated in FY2009	This special fund should not be included in report.
8. Hawaii Housing Finance and Development Special Fund	Does not operate as a revolving fund; terminate or reclassify fund	This special fund should not be included in report.
9. Hawaii Housing Finance and Dev. Corp. Administration Special Fund	Does not operate as a revolving fund; terminate or reclassify fund	This special fund should not be included in report.
10. Private Housing Development & Ownership Special Fund	Does not operate as a revolving fund; terminate or reclassify fund	This special fund should not be included in report.
11. UH Faculty Housing 1995 Bond Proceeds-RHS Special Fund	Review for possible reclassification as a special fund	This special fund should not be included in report.
12. Waialua Sugar Workers Grant/Loan Program Special Fund	Consider discontinuing fund and transferring unused funds back to Rental Assistance Revolving Fund	This special fund should not be included in report.

HHFDC provides the following specific responses regarding each of these funds:

1. **Dwelling Unit Revolving Fund, Section 201H-191, HRS**
Auditor's Conclusion: There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund meets the criteria of the revolving fund.
Response: HHFDC concurs with the Auditor's conclusion. As previously noted, pursuant to Act 79, SLH 2009, investment interest generated by this fund will be deposited into the State's general fund for fiscal years 2010 through 2015.
2. **Fee Simple Residential Revolving Fund, Section 516-44, HRS**
Auditor's Conclusion: There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund therefore meets the criteria of a revolving fund.
Response: HHFDC concurs with the Auditor's conclusion.
3. **Housing Finance Revolving Fund, Section 201H-80, HRS**
Auditor's Conclusion: There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and an appropriate financing mechanism for the program. The fund therefore meets the criteria of a revolving fund. The department noted that pursuant to Act 79, SLH 2009, investment interest generated by this fund will be deposited into the State's general fund for fiscal years 2010 through 2015.
Response: HHFDC concurs with the Auditor's conclusion.
4. **Kikala-Keokea Housing Revolving Fund, Section 201H-81, HRS**
Auditor's Conclusion: The fund is intended to be self-sustaining with interest payments being used for administrative expenses. However, self-sustainability will be unknown until the program is implemented.
Response: The Kikala-Keokea loan program has been in place since September 17, 2007 (the effective date of the Hawaii Administrative Rules for the program). As no loans have been made to date, HHFDC concurs with the Auditor's conclusion.
5. **Rental Assistance Revolving Fund, Section 201H-123, HRS**
Auditor's Conclusion and Recommendation: A clear link exists between the benefits sought and charges made upon users of interim construction financing. In addition, the fund is self-sustaining and does not require general fund appropriations. However, there is no linkage in the case of the rental assistance program. Previous reviews recommended that the rental assistance program be budgeted through the general fund. The corporation reports that pursuant to Act 79, SLH 2009, investment interest generated by this fund will be deposited in the general fund for fiscal years 2010 through 2015.

Response: While HHFDC concurs with the Auditor's conclusion for the interim loan program, it disagrees with the Auditor's recommendation that the rental assistance program be budgeted through the general fund. The rental assistance program is meeting the legislatively mandated purpose of providing project-based rent subsidies for lower income households residing in eligible rental housing projects. Initially, rental assistance payments were legislatively mandated to be made from earnings on the investment of the Rental Assistance Revolving Fund (RARF) and amounts recovered by the Corporation. Act 307, SLH 1992 repealed that requirement and authorized the use of the principal sum and accumulated earnings in the RARF to make payments under the rental assistance contracts. HHFDC has long-term commitments for rental assistance payments totaling approximately \$54.6 million. Existing rental assistance contracts have 20 to 30 year terms which extend far beyond a fiscal biennium.

6. Rental Housing Trust Fund, Section 201H-202, HRS

Auditor's Conclusion and Recommendation: The fund continues to serve the purpose for which it was originally created and in prior reviews we concluded that this fund met the definition of a trust fund. However, upon closer scrutiny, the fund does not meet the definition of a trust fund as there are no designated persons or classes of persons having a vested beneficial interest or equitable ownership in the assets of the fund as required by state law. This fund should be repealed or reclassified.

Response: HHFDC disagrees with the Auditor's recommendation to repeal or reclassify the Rental Housing Trust Fund (RHTF). The RHTF is meeting the legislatively mandated purpose of providing financing for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. HHFDC has existing loan agreements in excess of \$179 million for over 3,900 affordable rental units. Beneficiaries of the program are residents who rent housing units in RHTF-financed properties.

7. Broadened Homesite Ownership

Auditor's Conclusion: The fund was terminated in FY2008 and the remaining balance transferred to the Fee Simple Residential Revolving Fund.

Response: The Broadened Homesite Ownership fund is classified as a special fund, not a revolving fund. The Auditor's report correctly describes the purpose of this special operating fund and that it was terminated. However, because the Auditor's report specifically reviews revolving funds, trust funds, and trust accounts, we recommend deletion of the Broadened Homesite Ownership special fund from the report.

8. Hawaii Housing Finance and Development Corporation

Auditor's Conclusion and Recommendation: This fund does not operate as a revolving fund and is merely a mechanism to fund administrative expense. As this fund was administratively established, we recommend that the fund be terminated or possibly reclassified.

Response: The Hawaii Housing Finance and Development Corporation fund (appropriation symbol S-YY-314-B) is classified as a special fund, not a revolving fund. The Auditor's report correctly describes the purpose of this special operating fund. However, because the Auditor's report specifically reviews revolving funds, trust funds, and trust accounts, we recommend deletion of the Hawaii Housing Finance and Development Corporation special fund from the report.

9. Hawaii Housing Finance and Development Corporation Administration

Auditor's Conclusion and Recommendation: This fund does not operate as a revolving fund and is merely a mechanism to fund administrative expenses...As this fund was administratively established, we recommend that the fund be terminated or possibly reclassified.

Response: The Hawaii Housing Finance and Development Corporation fund (appropriation symbol S-YY-314-B) is classified as a special fund, not a revolving fund. The Auditor's report correctly describes the purpose of this special operating fund. However, because the Auditor's report specifically reviews revolving funds, trust funds, and trust accounts, we recommend deletion of the Hawaii Housing Finance and Development Corporation Administration special fund from the report.

10. Private Housing Development & Ownership

Auditor's Conclusion and Recommendation: This fund does not operate as a revolving fund and is merely a mechanism to fund related administrative expenses...As this fund was administratively established, we recommend that the fund be terminated or possibly reclassified.

Response: The Private Housing Development & Ownership fund (appropriation symbol S-YY-320-B) is classified as a special fund, not a revolving fund. The Auditor's report correctly describes the purpose of this special operating fund. However, because the Auditor's report specifically reviews revolving funds, trust funds, and trust accounts, we recommend deletion of the Private Housing Development & Ownership special fund from the report.

11. UH Faculty Housing 1995 Bond Proceeds-RHS Revolving Fund

Auditor's Conclusion and Recommendation: Although the fund continues to serve the purpose for which it was originally created, and does not require any general fund appropriations, it was not specifically created by statute. As this fund was administratively established, we recommend that the fund be reviewed for possible reclassification as a special fund.

Response: The UH Faculty Housing 1995 Bond Proceeds-RHS fund (appropriation symbol S-YY-377-B) is classified as a special fund, not a revolving fund. The Auditor's report correctly describes the purpose of this special fund. However, because the Auditor's report specifically reviews revolving funds, trust funds, and trust accounts, we recommend deletion of the UH Faculty Housing 1995 Bond special fund from the report.

12. **Waialua Sugar Workers Grant/Loan Program**

Auditor's Conclusion and Recommendation: There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and no general fund appropriations have been required. Linkage exists for the loans made since those who receive loans must repay the principal amount including interest; however, linkage does not exist for the subsidies provided as that portion of the program operates more as a trust fund. No subsidies have been made in the last five years and none are anticipated in the future as the fund is winding down. The department should consider discontinuing the fund and transferring unused funds back to the Rental Assistance Revolving Fund.

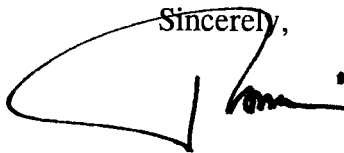
Response: The Waialua Sugar Workers Grant/Loan Program fund (appropriation symbol S-YY-325-B) is classified as a special fund, not a revolving fund. The Auditor's report correctly describes the purpose of this special operating fund. However, because the Auditor's report specifically reviews revolving funds, trust funds, and trust accounts, we recommend deletion of the Waialua Sugar Workers Grant/Loan Program special fund from the report.

Regarding the Tourism Emergency Trust Fund, a letter from the Hawaii Tourism Authority with their response is enclosed.

In conclusion, DBEDT does not agree with the recommendations of the Auditor on the Community Based Economic Development Revolving Fund, the Brownfields Cleanup Revolving Loan Fund, the Tourism Emergency Trust Fund and the funds and account of the Hawaii Housing Finance and Development Corporation specified above.

Should you or your staff wish to discuss any particular finding regarding the DBEDT section or any fund relating to DBEDT, please contact me at 586-2355.

Sincerely,

A handwritten signature in black ink, appearing to read 'Theodore E. Liu', is written over a large, stylized, handwritten letter 'L'.

Theodore E. Liu

Enclosure: Letter from the Hawaii Tourism Authority



Hawai'i Tourism Authority

Hawai'i Convention Center, 1801 Kalākaua Avenue, Honolulu, Hawai'i 96815
Website: www.hawaiitourismauthority.org

LINDA LINGLE
Governor

MIKE MCCARTNEY
President and
Chief Executive Officer

Telephone: (808) 973-2255
Fax: (808) 973-2253

December 8, 2009

Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawai'i 96813-2917

Dear Ms. Higa:

Thank you for an opportunity to respond to your "Review of Revolving Funds, Trust Funds, and Trust Accounts for the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawai'i." Specifically, we are responding to your finding that the Tourism Emergency Trust Fund "does not meet the definition of a trust fund as there are no designated persons or classes of persons having a vested beneficial interest or equitable ownership in the assets of the fund as required by state law." Consequently, you recommended that the "fund should be repealed or reclassified."

The Hawai'i Tourism Authority ("HTA") respectfully submits that the Tourism Emergency Trust Fund ("Emergency Fund") should not be repealed. The Emergency Fund should also not be reclassified as another fund or account until it can be determined that if reclassified the original intent and purpose for the Fund can be achieved.

Initially, we believe that the establishment of the Emergency Fund under HRS § 201B-10 provides significant safeguards to ensure that it can not be used to divert resources from the general fund nor weaken the Legislature's control over Transient Accommodations Tax revenues deposited into the Emergency Fund. Moneys from the Emergency Fund cannot be expended until a "tourism emergency," as prescribed under HRS § 201B-9, is initially determined by the HTA Board of Directors and subsequently declared by the Governor.

Upon declaration by the Governor of a tourism emergency, moneys in the Emergency Fund can only be expended to develop and implement measures or actions in response to the tourism emergency. Additionally, a tourism emergency arising from a national or global economic crisis will require the Governor's prior express approval of any action to expend funds for measures taken by the HTA in response to the emergency.

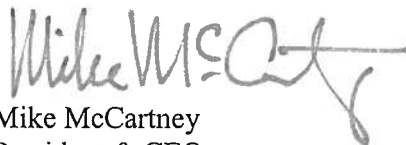
The Emergency Fund was established by law to immediately implement specific measures or actions in response to a tourism emergency, including providing direct assistance to tourists during an emergency. Due to the emergency and unforeseen nature of the statutory

conditions for expenditures from the Emergency Fund, the purpose for the Fund would not be achieved if the HTA would be required to seek a legislative appropriation prior to any expenditure from the Fund. Consequently, the Emergency Fund was not established as a special fund requiring a legislative appropriation for funds deposited into the special fund. Moreover, the Emergency Fund was not established as a revolving fund because moneys in the fund would not be provided through the payment for the cost of goods and services provided by HTA.

We understand that the definition of a "trust fund" under HRS § 37-62 was used to distinguish a special fund and a revolving fund. To the extent that the Emergency Fund was established by law as a trust fund, we submit the Legislature intended that persons adversely impacted by a tourism emergency would be the designated class of persons having a vested beneficial or equitable ownership to the moneys deposited into the Fund and expended to only implement actions in response to the emergency. Moreover, the designated classes of beneficiaries would vary depending on the nature of the emergency and the specific actions taken in response to the emergency. For instance, the designated class of beneficiaries would differ if the emergency arose from a terrorist threat as compared to an outbreak of disease. Until the emergency arises and the appropriate responsive action is determined, the class of beneficiaries cannot be specifically designated to have a vested interest, except to the extent provided by the law establishing the Emergency Fund.

Again, we appreciate the opportunity to offer our understanding for the establishment of the Emergency Fund. We especially appreciate the efforts of your Office to provide relevant findings and recommendations during its review of the numerous revolving and trust funds established by law.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Mike McCartney", with a stylized flourish at the end.

Mike McCartney
President & CEO

c: Theodore E. Liu, Director of Business, Economic Development & Tourism



UNIVERSITY
of HAWAII*
SYSTEM

M.R.C. Greenwood
President

December 14, 2009

RECEIVED

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OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

I am writing in response to your letter of December 3, 2009 inviting comments on the confidential draft report, *Review of Revolving Funds, Trust Funds, and Trust Accounts for the Departments of the Attorney General and Business, Economic Development & Tourism, and the University of Hawaii.*

Our planned actions/responses to findings contained in the draft report are provided below.

Finding: Animal Research Farm, Waialeale, Oahu Revolving Fund, Sec. 304A-2262, HRS - does not meet criteria of a revolving fund as fund no longer serves the purpose for which it was created.

Planned Action/Response: The University plans to propose legislation to repeal this fund and consolidate it into a special fund.

Finding: Child Care Programs Revolving Fund, Sec. 304A-2252, HRS - This fund does not meet criteria of a revolving fund as fund is not self-sustaining, teaching & administrative personnel are paid with general funds.

Planned Action/Response: The University will review the feasibility of increasing program revenues to eliminate the use of general fund appropriations and consider converting or consolidating it into a special fund.

Finding: Community College and University of Hawaii at Hilo Bookstore Revolving Fund, Section 304A-2269, HRS - Fund has not been used for several years as transactions are accounted for within the University Revenue-Undertakings Special Fund.

Planned Action/Response: The University has no objection to repeal of this fund.

2444 Dole Street, Bachman Hall
Honolulu, Hawaii 96822
Telephone: (808) 956-8207
Fax: (808) 956-5286

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Finding: Discoveries and Inventions Revolving Fund, Section 304A-2254, HRS – This fund does not meet criteria of a revolving fund as the fund is not self-sustaining. Transfers were received from the Research & Training Revolving Fund for personnel and general operating costs.

Planned Action/Response: The University plans to propose legislation to convert or consolidate this fund into a special fund.

Finding: International Exchange Health Care Tourism Revolving Fund, Section 304A-2265, HRS - this fund was never implemented or utilized and should be repealed.

Planned Action/Response: The University has no objection to repeal of this fund.

Finding: Research and Training Revolving Fund, Section 304A-2253, HRS - does not meet the criteria of a revolving fund as there is no direct link between the benefits sought and charges made upon users. Revenues are reimbursements for indirect overhead costs that are not attributable to a specific grant, contract, or coop agreement.

Planned Action/Response: The University plans to propose legislation to convert this fund into a special fund.

Finding: Senator Hiram L. Fong Scholarship Program Endowment Trust Fund, Section 304A-2353, HRS – The program was intended to provide financial support to qualified students at any campus of the university. However, initial funding was never received. This fund should be considered for repeal if there is no intent or commitment in the near future.

Planned Action/Response: The University has no objection to considering repeal of this fund if funding is not received within the next biennium.

Finding: Senator Oren E. Long Scholarship Program Endowment Trust Fund, Section 304A-2354, HRS – The program was intended to provide financial support to qualified students at any campus of the university. However, initial funding was never received. This fund should be considered for repeal if there is no intent or commitment in the near future.

Planned Action/Response: The University has no objection to considering repeal of this fund if funding is not received within the next biennium.

Finding: Student Health Center Revolving Fund, Section 304A-2255, HRS – This fund does not meet criteria of a revolving fund as the fund is not self-sustaining. Administrative costs are paid with general funds.

Planned Action/Response: Fee increases approved starting with the Spring 2009 semester should return this fund to self-sustainability.

Finding: University of Hawaii Alumni Revolving Fund, Section 304A-2259, HRS - does not meet criteria of a revolving fund and should be repealed as the fund does not meet its original purpose.

Planned Action/Response: The University plans to propose legislation to repeal this fund and convert or consolidate it into a special fund.

Finding: University of Hawaii at Hilo Intercollegiate Athletics Revolving Fund, Section 304A-2261, HRS – This fund does not meet criteria of a revolving fund as the fund is not self-sustaining. Personnel costs are funded through general fund appropriations.

Planned Action/Response: The University plans to propose legislation to convert this fund into a special fund.

Finding: University of Hawaii-Hilo Theatre Revolving Fund, Section 304-8.946, HRS – This fund does not meet criteria of a revolving fund as the fund is not self-sustaining. Payroll costs are paid with general funds.

Planned Action/Response: The University will phase out general fund support of the activities conducted under this fund and consider converting or consolidating it into a special fund.

Finding: University of Hawaii at Manoa Intercollegiate Athletics Revolving Fund, Section 304A-2261, HRS – This fund does not meet criteria of a revolving fund as the fund is not self-sustaining. Payroll costs are paid with general funds.

Planned Action/Response: The University plans to propose legislation to convert this fund into a special fund.

Finding: University of Hawaii Housing Assistance Revolving Fund, Section 304A-2258, HRS Fund has been inactive over the past six fiscal years and should be repealed.

Planned Action/Response: The University plans to propose legislation to repeal this fund and consolidate it into a special fund.

Finding: Unrestricted Quasi-Endowment Income and Scholarship Revolving Fund, Section 304A-2003, HRS – This fund was not legislatively established and has been improperly maintained by the University.

Planned Action/Response: This fund should be classified as a trust fund. The University will reclassify the affected accounts.

Finding: University of Hawaii Intercollegiate Athletics Scholarships Trust Fund, Administratively Established – This fund does not meet criteria of a trust fund as the fund is not self-sustaining. Expenditures exceed revenues.

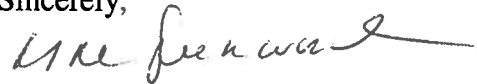
Planned Action/Response: This fund is technically an account within the “University of Hawaii Gifts and Donations Trust Funds” and will not be reported as a separate fund in the future.

Finding: University of Hawaii Press Revolving Fund – This fund was administratively established by the university and not through legislative authority as required by Section 37-52.4, HRS.

Planned Action/Response: The fund was established in 1970 and is used to account for the activities of the University of Hawaii Press. The university plans to propose legislation to establish this fund.

Thank you for the opportunity to comment on the draft report. Please feel free to contact Howard Todo at 956-8903 if there are any questions.

Sincerely,



M.R.C. Greenwood
President

c: Howard Todo
Stephanie Kim
Financial Management Office