

**State of Hawaii  
Water Pollution Control  
Revolving Fund  
Financial Statements  
June 30, 2009**

Submitted by  
The Auditor  
State of Hawaii

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
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**June 30, 2009**

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## Report of Independent Auditors

The Auditor  
State of Hawaii

We have audited the accompanying statement of net assets of the State of Hawaii, Water Pollution Control Revolving Fund (the "Fund") as of June 30, 2009, and the related statements of revenues, expenses and change in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements referred to above include only the financial activities of the Fund, and are not intended to present fairly the financial position, results of operations, or cash flows of the State of Hawaii or the State of Hawaii, Department of Health, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2010 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

The Fund's management has not presented the management's discussion and analysis for the year ended June 30, 2009 that accounting principles generally accepted in the United States of America require to supplement, although not to be a part of, the basic financial statements. The Fund's management discussion and analysis for the year ended June 30, 2009 is incorporated in the financial statements for the State of Hawaii, Department of Health.

Our audit was conducted for the purpose of forming an opinion on the Fund's financial statements. The supplementary information presented on pages 14 through 17 is presented for purposes of additional analysis and is not a required part of the Fund's financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Fund's financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the Fund's financial statements taken as a whole.

*Accuity LLP*

Honolulu, Hawaii  
March 23, 2010

# **Financial Statements**

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Statement of Net Assets**  
**June 30, 2009**

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**Assets**

Current assets

Equity in cash and cash equivalents and investments in State Treasury	\$ 120,167,747
Loan fees receivable	400,159
Accrued interest on loans	764,508
Other accrued interest	1,260,359
Current maturities of loans receivable	<u>20,844,288</u>
Total current assets	143,437,061

Loans receivable, net of current maturities	<u>232,113,655</u>
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Total assets	<u>\$ 375,550,716</u>
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**Liabilities and Net Assets**

Current liabilities

Accounts payable and other accrued liabilities	\$ <u>143,214</u>
Total current liabilities	143,214

Accrued vacation, net of current portion	186,736
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Other postemployment benefits	<u>291,777</u>
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Total liabilities	621,727
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Commitments and contingencies

Net assets

Restricted – expendable	<u>374,928,989</u>
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Total net assets	<u>374,928,989</u>
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Total liabilities and net assets	<u>\$ 375,550,716</u>
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The accompanying notes are an integral part of these financial statements.

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Statement of Revenues, Expenses and Change in Net Assets**  
**Year Ended June 30, 2009**

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<b>Operating revenues</b>	
Interest income from loans	\$ 3,252,434
Administrative loan fees	1,679,986
Total operating revenues	<u>4,932,420</u>
<b>Operating expenses</b>	
Administrative	1,619,087
Total operating expenses	<u>1,619,087</u>
Operating income	3,313,333
<b>Nonoperating revenues and expenses</b>	
State contributions	1,655,000
Federal contributions	12,143,089
Other interest loss	<u>(4,114,807)</u>
Total nonoperating revenues and expenses	<u>9,683,282</u>
Change in net assets	12,996,615
<b>Net assets</b>	
Beginning of year	<u>361,932,374</u>
End of year	<u>\$ 374,928,989</u>

The accompanying notes are an integral part of these financial statements.

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Statement of Cash Flows**  
**Year Ended June 30, 2009**

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<b>Cash flows from operating activities</b>	
Interest income from loans	\$ 3,607,102
Administrative loan fees	1,872,790
Principal repayments on loans	21,036,414
Disbursement of loan proceeds	(76,012,545)
Payments to employees	(1,299,578)
Payments to vendors	(135,209)
	<u>(50,931,026)</u>
Net cash used in operating activities	
<b>Cash flows from noncapital financing activities</b>	
State contributions	1,655,000
Federal contributions	12,143,089
	<u>13,798,089</u>
Net cash provided by noncapital financing activities	
<b>Cash flows from investing activities</b>	
Other interest loss	(4,542,119)
	<u>(4,542,119)</u>
Net cash used in investing activities	
Net decrease in cash	
	(41,675,056)
<b>Equity in cash and cash equivalents and investments in State Treasury</b>	
Beginning of year	161,842,803
End of year	<u>\$ 120,167,747</u>
<b>Reconciliation of operating income to net cash used in operating activities</b>	
Operating income	\$ 3,313,333
Adjustment to reconcile operating income to net cash used in operating activities	
Depreciation expense	7,475
Change in assets and liabilities	
Loan fees receivable	192,803
Accrued interest on loans	354,668
Loans receivable	(54,976,130)
Accounts payable and other accrued liabilities	28,449
Other postemployment benefits	148,376
	<u>148,376</u>
Net cash used in operating activities	<u>\$ (50,931,026)</u>

The accompanying notes are an integral part of these financial statements.

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2009**

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**1. Establishment and Purpose of the Fund**

The Clean Water Act of 1987 (the "Act") provides for the U.S. Environmental Protection Agency ("EPA") to make grants to states for the purpose of making loans to finance the construction of publicly owned wastewater treatment works, implementation of a non-point source pollution control management program, and implementation of an estuary conservation and management program. Under the Act, the State of Hawaii ("State") was eligible to receive up to \$72 million in federal capitalization grants. Although the Act expired on September 30, 1995, the State continues to receive capitalization grants from the EPA.

In 1988, the State Legislature established the Water Pollution Control Revolving Fund (the "Fund") to implement the federal loan program. The Fund is administered by the Wastewater Branch, Environmental Management Division of the State of Hawaii, Department of Health (the "Department"). The Fund's primary purpose is to provide loans in perpetuity to county and State agencies for the construction of wastewater treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final agreement date, whichever is later. Although some funds were previously used to provide grants, the Department stopped awarding grants in March 1991.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying financial statements are intended to present the financial position, results of operations and cash flows of only that portion of the State and Department that is attributable to the transactions of the Fund and are not intended to present the financial position, results of operations or cash flows of the State or Department.

The financial statements of the Fund are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles prescribed by the Governmental Accounting Standards Board ("GASB") for proprietary funds. Accordingly, the Fund has adopted all GASB pronouncements, and all Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989 that do not contradict or conflict with existing GASB pronouncements. The Fund has elected not to apply all FASB pronouncements issued after November 30, 1989.

Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2009**

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**Use of Estimates**

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

**Equity in Cash and Cash Equivalents and Investments in State Treasury**

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

At June 30, 2009, information relating to the types, insurance, collateral, and related interest rate, credit and custodial risks of funds deposited with the State Treasury was not available since such information is determined on a statewide basis and not for individual departments. Cash deposits with the State Treasury are either federally insured or collateralized with obligations of the State or United States. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

In February 2010, DAGS issued guidance, informing State agencies participating in the State Treasury Investment Pool that the State's investments in auction rate securities were impaired as of and for the year ended June 30, 2009 and that each participating State agency would be allocated a portion of the impairment. The Fund's allocated impairment loss for 2009 amounted to \$7,529,278.

**Loans Receivable**

Loans made to counties are funded by federal capitalization grants, State matching funds, repayments and investment interest income. Loan funds are disbursed to local agencies as they expend for the purposes of the loan and request reimbursement from the Fund. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period.

**Administrative Loan Fees**

In June 1996, the Department implemented an administrative loan fee program to pay for the Fund's administration, including employee salaries and benefits. The program applies an administrative fee to all loans as provided for in Chapter 11-65 of the Hawaii Administrative Rules.

**Capital Assets**

Capital assets consist primarily of equipment and are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation of capital assets is provided for on a straight-line basis, generally three years over the estimated useful lives of the respective assets.

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2009**

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**Accrued Vacation**

Vacation pay is accrued as earned by employees. Vacation pay can accumulate at the rate of one and three-quarters working days for each month of service up to 720 hours at calendar year-end and is convertible to pay upon termination of employment. The current portion of the accrued vacation balance is included in the accounts payable and other accrued liabilities balance.

**Accumulated Sick Leave**

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in ERS. At June 30, 2009, accumulated sick leave was approximately \$729,000.

**Net Assets**

The Fund's net assets are classified as restricted expendable. These net assets are subject to externally-imposed stipulations that can be fulfilled by actions of the Fund pursuant to those stipulations or that expire by the passage of time.

**Administrative Costs**

The accompanying financial statements do not reflect certain administrative costs, which are paid for by other sources of funding from the Department. These costs include the Department's and State's overhead costs which the Department does not assess to the Fund, since they are not practical to determine.

**Fund Accounts**

The Fund consists of State revolving fund ("SRF") and State activity. The SRF activity exclusively consists of federal capitalization grant loans, state matching contributions, federal administration, principal loan repayments, and interest from loans and other earning assets. The State activity consists of the State loan funds, State grant funds, non-point source funds, and State loan administration fees.

**Expenses**

The statement of revenues, expenses and change in net assets presents expenses on a functional basis. The natural classifications of expenses are presented in the supplemental schedule of administrative expenses.

**New Accounting Pronouncements**

In March 2009, the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP. The requirements of this Statement became effective upon its issuance and did not materially impact the Fund's financial statements.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statement on Auditing Standards into GASB's authoritative literature. This statement was intended to improve financial reporting by bringing the authoritative accounting and financial reporting literature together in one place. The requirements of this Statement became effective upon its issuance and did not materially impact the Fund's financial statements.

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2009**

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In January 2010, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, as an option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The requirements of this Statement are effective for periods beginning after June 5, 2011. Management does not expect that this Statement will have a material effect on the Fund's financial statements as the Fund participates in the State's plan, which has more than 100 members.

In January 2010, the GASB also issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2009. Currently, management does not expect that this Statement will apply to the Fund.

**3. Loans Receivable**

At June 30, 2009, loans receivable from government entities were as follows:

Twenty-five loans receivable from the City & County of Honolulu; due in annual or semi-annual payments, including interest ranging from 0.50% to 3.02%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.	\$ 160,117,730
Sixteen loans receivable from the County of Hawaii; due in annual or semi-annual payments, including interest ranging from 0.50% to 3.02%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.	26,697,287
Twenty-one loans receivable from the County of the Maui; due in annual or semi-annual payments, including interest ranging from 0.50% to 2.60%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.	52,244,932
Nine loans receivable from the County of Kauai; due in semi-annual or quarterly payments, including interest ranging from 0.50% to 2.78%, commencing not later than one year after project completion, notice to proceed, or loan agreement date. Final payment is due not later than twenty years after project completion.	13,897,994
	<u>252,957,943</u>
Less: Current maturities	20,844,288
	<u>\$ 232,113,655</u>

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2009**

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

2010	\$ 20,844,288
2011	21,431,809
2012	21,771,693
2013	22,138,230
2014	19,620,704
Thereafter	<u>147,151,219</u>
	<u>\$ 252,957,943</u>

Management believes that all loans will be repaid according to the loan terms; accordingly, no provision for uncollectible amounts has been recorded.

At June 30, 2009, the following amounts were committed to be loaned out under existing loan agreements:

County of Hawaii	\$ 18,192,772
County of Maui	<u>1,750,000</u>
Total	<u>\$ 19,942,772</u>

**4. Capital Assets**

Summary of capital assets at June 30, 2009 is as follows:

	<b>Balance at June 30, 2008</b>	<b>Additions</b>	<b>Retirements/ Disposals</b>	<b>Balance at June 30, 2009</b>
Equipment	\$ 54,841	\$ -	\$ (16,243)	\$ 38,598
Accumulated depreciation	<u>(47,366)</u>	<u>(7,475)</u>	<u>16,243</u>	<u>(38,598)</u>
	<u>\$ 7,475</u>	<u>\$ (7,475)</u>	<u>\$ -</u>	<u>\$ -</u>

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2009**

**5. Contributed Capital**

The Fund is capitalized by grants from the EPA and matching funds from the State. The following summarizes the EPA capitalization grants awarded, amounts drawn on each grant, and the balances available for future loans at June 30, 2009:

Budget Period	Amount	Total Draws at June 30, 2008	Total 2009 Cash Draws	Funds Available
09/29/89 – 09/30/96	\$ 7,568,001	\$ 7,568,001	\$ -	\$ -
09/26/90 – 09/30/97	7,532,600	7,532,600	-	-
10/01/91 – 09/30/98	15,894,300	15,894,300	-	-
10/01/92 – 09/30/07	15,048,400	15,048,400	-	-
10/01/93 – 09/30/03	16,947,877	16,947,877	-	-
09/19/94 – 09/30/07	9,769,484	9,769,484	-	-
04/05/95 – 09/30/02	11,110,859	11,110,859	-	-
01/26/96 – 09/30/07	11,316,361	11,316,361	-	-
09/01/97 – 09/30/07	11,044,606	11,044,606	-	-
09/23/98 – 09/30/08	10,662,341	10,662,341	-	-
09/08/99 – 09/30/07	11,550,624	11,550,624	-	-
05/21/01 – 09/30/07	10,407,600	10,407,600	-	-
03/08/02 – 09/30/08	10,363,068	10,363,068	-	-
10/01/03 – 09/30/09	10,325,106	10,325,106	-	-
04/15/04 – 09/30/10	10,257,984	9,595,097	662,887	-
10/01/05 – 09/30/11	10,264,221	9,853,652	410,569	-
09/01/06 – 06/30/15	8,330,100	3,002,500	5,327,600	-
07/15/07 – 06/30/17	6,750,716	4,835,999	1,914,717	-
03/01/08 – 06/30/17	8,273,000	-	3,452,311	4,820,689
10/01/08 – 06/30/18	5,223,500	-	375,005	4,848,495
	<u>\$ 208,640,748</u>	<u>\$ 186,828,475</u>	<u>\$ 12,143,089</u>	<u>\$ 9,669,184</u>

The State is required to match 20% of the estimated amount of the grant from the EPA and does so in the year that the capitalization grant is awarded. Through June 30, 2009, the Fund was in compliance with the 20% State matching requirement. The required State match through June 30, 2009 approximated \$41.7 million, of which approximately \$41.3 million has been utilized and approximately \$400,000 was available to be loaned out at June 30, 2009.

**6. Accrued Vacation**

At June 30, 2009, long-term obligations consisted of accrued vacation as follows:

Balance at July 1, 2008	\$ 230,140
Increase	53,563
Decrease	(46,668)
Balance at June 30, 2009	<u>237,035</u>
Less: Current portion	<u>50,299</u>
Noncurrent portion	<u>\$ 186,736</u>

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2009**

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**7. Employee Benefit Plans**

Substantially all employees of the Fund participate in the State's various employee benefit plans, including the Employees' Retirement System ("ERS") of the State of Hawaii, post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State of Hawaii and ERS' Comprehensive Annual Financial Reports ("CAFR"). The State's CAFR can be found at the Department of Accounting and General Services' ("DAGS") website: <http://hawaii.gov/dags/rpts>. The ERS CAFR can be found at the ERS website: <http://www4.hawaii.gov/ers/default.htm>.

**Employees' Retirement System**

The ERS is a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

**Deferred Compensation Plan**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.

**Post-Employment Healthcare and Life Insurance Benefits**

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

*State Policy*

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

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Notes to Financial Statements**  
**June 30, 2009**

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*Allocated OPEB Cost*

The following table shows the components of the annual OPEB cost that have been allocated to the Fund for the year ended June 30, 2009:

Annual required contribution	\$ 231,052
Interest on net OPEB obligation	7,096
Adjustment to annual required contribution	<u>(6,031)</u>
Annual OPEB cost (expense)	232,117
Contributions made	<u>(83,741)</u>
Increase in net OPEB obligation	148,376
Net OPEB obligation	
Beginning of year	<u>143,401</u>
End of year	<u>\$ 291,777</u>

*Amount of Contributions Made*

Contributions are financed on a pay-as-you-go basis and the Fund's contributions for the years ended June 30, 2009, 2008 and 2007 approximated \$83,700, \$85,600 and \$65,500, respectively.

*Required Supplementary Information and Disclosures*

The State's CAFR includes the required footnote disclosures and supplementary information on the State's OPEB plan.

**8. Insurance Coverage**

Insurance coverage is maintained at the State level. The State is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation and other insurance claims are appropriated annually from the State's general fund.

The Department is covered by the State's self-insured workers' compensation program for medical expenses of injured Department employees. However, the Department is required to pay temporary total and temporary partial disability benefits as long as the employee is on the Department's payroll. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claim liabilities may be re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Workers' compensation benefit claims reported as well as incurred but not reported were reviewed at year end. The estimated losses from these claims were not material.

## **Supplementary Information**

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Schedule of Cash Receipts, Disbursements and Cash Balance**  
**Year Ended June 30, 2009**

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**Receipts**

Principal repayments on loans	\$ 21,036,414
Interest income from loans	3,607,102
State contributions	1,655,000
Federal contributions	12,143,089
Administrative loan fees	<u>1,872,790</u>
Total receipts	40,314,395

**Disbursements**

Disbursement of loan proceeds	76,012,545
Administrative	1,434,787
Other interest loss	<u>4,542,119</u>
Total disbursements	<u>81,989,451</u>
Excess of disbursements over receipts	(41,675,056)

**Equity in cash and cash equivalents and investments  
in State Treasury**

Beginning of year	<u>161,842,803</u>
End of year	<u>\$ 120,167,747</u>

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Combining Statement of Net Assets**  
**June 30, 2009**

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	<b>State Revolving Fund Activity</b>	<b>State Activity</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 116,703,787	\$ 3,463,960	\$ 120,167,747
Loan fees receivable	-	400,159	400,159
Accrued interest on loans	764,508	-	764,508
Other accrued interest	1,260,359	-	1,260,359
Current maturities of loans receivable	17,993,814	2,850,474	20,844,288
Total current assets	<u>136,722,468</u>	<u>6,714,593</u>	<u>143,437,061</u>
Loans receivable, net of current maturities	<u>218,219,024</u>	<u>13,894,631</u>	<u>232,113,655</u>
Total assets	<u>\$ 354,941,492</u>	<u>\$ 20,609,224</u>	<u>\$ 375,550,716</u>
<b>Liabilities and Net Assets</b>			
Current liabilities			
Accounts payable and other accrued liabilities	\$ -	\$ 143,214	\$ 143,214
Total current liabilities	-	143,214	143,214
Accrued vacation, net of current portion	-	186,736	186,736
Other postemployment benefits	-	291,777	291,777
Total liabilities	-	621,727	621,727
Net assets			
Restricted – expendable	<u>354,941,492</u>	<u>19,987,497</u>	<u>374,928,989</u>
Total net assets	<u>354,941,492</u>	<u>19,987,497</u>	<u>374,928,989</u>
Total liabilities and net assets	<u>\$ 354,941,492</u>	<u>\$ 20,609,224</u>	<u>\$ 375,550,716</u>

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Combining Statement of Revenues, Expenses and Change in Net Assets**  
**Year Ended June 30, 2009**

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	State Revolving Fund Activity	State Activity	Total
<b>Operating revenues</b>			
Interest income from loans	\$ 2,853,354	\$ 399,080	\$ 3,252,434
Administrative loan fees	-	1,679,986	1,679,986
Total operating revenues	<u>2,853,354</u>	<u>2,079,066</u>	<u>4,932,420</u>
<b>Operating expenses</b>			
Administrative	4,200	1,614,887	1,619,087
Operating income	<u>2,849,154</u>	<u>464,179</u>	<u>3,313,333</u>
<b>Nonoperating revenues and expenses</b>			
State contributions	1,655,000	-	1,655,000
Federal contributions	12,143,089	-	12,143,089
Other interest loss	<u>(4,114,807)</u>	<u>-</u>	<u>(4,114,807)</u>
Total nonoperating revenues and expenses	<u>9,683,282</u>	<u>-</u>	<u>9,683,282</u>
Interfund transfers	<u>3,674,031</u>	<u>(3,674,031)</u>	<u>-</u>
Change in net assets	<u>16,206,467</u>	<u>(3,209,852)</u>	<u>12,996,615</u>
<b>Net assets</b>			
Beginning of year	<u>338,735,025</u>	<u>23,197,349</u>	<u>361,932,374</u>
End of year	<u>\$ 354,941,492</u>	<u>\$ 19,987,497</u>	<u>\$ 374,928,989</u>

**Note:** Interest earnings from State Activity are deposited into the State Revolving Fund Activity.

**State of Hawaii**  
**Water Pollution Control Revolving Fund**  
**Schedule of Expenses**  
**Year Ended June 30, 2009**

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	<b>State Revolving Fund Activity</b>	<b>State Activity</b>	<b>Total</b>
Personnel	\$ -	\$ 1,474,885	\$ 1,474,885
Services rendered by other State agencies	-	35,190	35,190
Travel	-	34,447	34,447
Professional services	-	26,446	26,446
Office and other supplies	-	9,452	9,452
Rental	-	6,304	6,304
Telephone	-	6,181	6,181
Advertising	-	3,931	3,931
Training	-	3,826	3,826
Utilities	-	3,425	3,425
Depreciation	4,200	3,275	7,475
Repairs and maintenance	-	1,807	1,807
Equipment – small tool and supplies	-	1,804	1,804
Miscellaneous	-	3,914	3,914
Total	<u>\$ 4,200</u>	<u>\$ 1,614,887</u>	<u>\$ 1,619,087</u>

**Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

The Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii, Water Pollution Control Revolving Fund (the "Fund"), as of and for the year ended June 30, 2009, and have issued our report thereon dated March 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Auditor; the State of Hawaii, Water Pollution Control Revolving Fund's management; the State of Hawaii, Department of Health's management; and the United States Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

*Accuity LLP*

Honolulu, Hawaii  
March 23, 2010



CERTIFIED PUBLIC ACCOUNTANTS

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**Report of Independent Auditors on Compliance  
with the Requirements Applicable to the  
Environmental Protection Agency's  
Clean Water State Revolving Fund Program in  
Accordance with *Government Auditing Standards***

The Auditor  
State of Hawaii

We have audited the financial statements of the State of Hawaii, Water Pollution Control Revolving Fund (the "Fund") as of and for the year ended June 30, 2009, and have issued our report thereon dated March 23, 2010.

We have also audited the Fund's compliance with requirements governing:

- Allowability for Specific Activities
- Allowable Costs/Cost Principles
- Cash Management
- State Matching
- Period of Availability of Funds and Binding Commitments
- Program Income
- Reporting
- Subrecipient Monitoring, and
- Special Tests and Provisions

that are applicable to its major federal program for the year ended June 30, 2009. The management of the Fund is responsible for the Fund's compliance with these requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Fund complied, in all material respects, with the requirements governing types of activities and types of service and types of costs allowed or unallowed; matching; level of effort or earmarking requirements; special reporting requirements; special tests and provisions; and claims for advances and reimbursements that are applicable to its major federal financial assistance program for the year ended June 30, 2009.

This report is intended solely for the information and use of the Auditor; the State of Hawaii, Water Pollution Control Revolving Fund's management; the State of Hawaii, Department of Health's management; and the United States Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

*Accuity LLP*

Honolulu, Hawaii  
March 23, 2010