

**REPORT TO THE TWENTY-THIRD LEGISLATURE
STATE OF HAWAII
2005**

**PURSUANT TO SECTION 342D-82,
HAWAII REVISED STATUTES
RELATING TO THE
STATE WATER POLLUTION CONTROL REVOLVING FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL HEALTH ADMINISTRATION
ENVIRONMENTAL MANAGEMENT DIVISION
WASTEWATER BRANCH
DECEMBER 2004**

TABLE OF CONTENTS

Page No.

EXECUTIVE SUMMARY

OPERATIONS & ADMINISTRATION SECTION

A. Introduction	1
B. Major Initiatives	2
C. Goals and Accomplishments	4

FINANCIAL SECTION

A. Internal Controls	9
B. Overview of the Financial Report	9
C. Other Information	15

ATTACHMENT 1: WPCRF PROJECT LOCATION MAPS

ATTACHMENT 2: COMMITTED PROJECTS BY STATE FISCAL YEAR
AND FUNDING SOURCE

ATTACHMENT 3: WPCRF PROGRAM FINANCIAL REPORT

FINANCIAL STATEMENTS:

STATEMENT OF NET ASSETS
STATEMENT OF REVENUES, EXPENSES & CHANGES
IN NET ASSETS
STATEMENT OF CASH FLOWS
NOTES TO FINANCIAL STATEMENTS

EXECUTIVE SUMMARY

The Clean Water State Revolving Fund program (the “program”) is in its 15th year of operation and continues to make low interest loans to Hawaii’s four Counties for the construction of water pollution control infrastructure projects. This past year, the program departed from making traditional loans for the construction of centralized wastewater collection, treatment and disposal projects and made interim loans to the Counties of Hawaii and Kauai for the elimination of large capacity cesspools at various county parks, recreational facilities and other county facilities such as police and fire stations and baseyard facilities. The loans will help finance replacing cesspools with other non cesspool onsite wastewater systems. As part of this departure, the program is also considered waiving or reducing loan fees in specific projects as an incentive to the County for accepting responsibility and sponsorship of a number of plantation communities which are served by gang cesspools.

Major Activities in FY 2004

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

- Executed four (4) interim loans with a total estimated value of \$38.5 million;
- Continued to work with various counties on a number of other potential projects which we anticipate will become future loan projects;
- Continued to work on finalizing interim loans for projects from prior years;
- Serviced 54 loans with an estimated value of \$302 million;
- Applied for and received approximately \$10 million of capitalization grant funds from EPA;
- Requested and received the State’s 20% match of \$2.8 million from the Legislature.

Major Problems Encountered During FY 2004

The following major problems or challenges were encountered during the past fiscal year:

- The program lost its lead SRF engineer due to retirement. As of the end of the fiscal year, the position remains vacant. The continued vacancy is attributed to current budget execution policies which require the Governor’s prior approval for filling vacant positions. The vacancy has and continues to impact the program as the position is responsible for coordinating all engineering and environmental planning activities between the counties, EPA and the SRF program staff. The position is also responsible for conducting and submitting information to EPA for the national Needs Survey which determines each state’s SRF capitalization fund allocation; and
- The deputy attorney general assigned to the SRF program informed the program that existing loan language was faulty to the extent that it did not meet minimum federal requirements. As a result, a significant number of new interim loan and all final loan agreements were not signed resulting in a delay of over \$160 million worth of new loans not being processed. This matter was not resolved by the end of the fiscal year. *However, as of the date of the annual report, the matter was re-reviewed by the attorney general’s office and the matter was resolved with very minor language changes to our model loan agreements.*

On a more positive note, the program has met its objectives of a) providing low interest loans to Hawaii's four counties for the construction of high priority wastewater infrastructure needs; b) operating the program in perpetuity and in such a manner that it is self sufficient; and c) complying with all EPA SRF program requirements including federal cross cutters, MBE/WBE requirements and standard accounting practices. This conclusion is supported by EPA's annual performance evaluation conducted in March 2004 and reported on May 28, 2004 as well as the latest (FY 2003) annual independent audit of the program by the accounting firm of Grant Thornton LLP.

Future Outlook and Activities to be Addressed in FY 2005

The nation's and State's economy continues to recover at a moderate pace and the program does not see any indication of an adverse impact to our loan making capabilities to our four counties. We believe that the program will also be expanded to various county water departments for recycle water projects as well as to non traditional centralized wastewater projects. Manpower resources will continue to be an immediate problem for the program.

The following major activities will be conducted in FY 2005:

- Continuing to service existing loans;
- Applying for and receiving the Federal Fiscal Year (FFY) 2004 capitalization grant from EPA with an estimated value of \$10+ million;
- Submitting a request to the 2005 Legislature for the State's 20% match to EPA's capitalization grant;
- Working with all counties to insure that the new model loan agreement languages are acceptable;
- Executing interim and final loan agreements which were delayed in FY 2004;
- Overseeing construction activities for ongoing loans as well as new projects to be initiated in fiscal year 2005;
- Expanding the program by making loans to various water departments for recycle water projects; and
- Expanding the program into non centralized wastewater systems as well as exploring creative financing for county sponsorship of such projects.

OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

The Hawaii Water Pollution Control Revolving Fund (WPCRF) program was established by the 1988 Hawaii State Legislature in order to receive federal capitalization grants provided for by Title VI of the Water Quality Act of 1987. The WPCRF Program is administered by the Wastewater Branch of the Department of Health (DOH). The Wastewater Branch's primary activity with regard to the WPCRF program is to make low-interest loans to Hawaii's counties and other applicants for the construction of water pollution control facilities. The projects constructed by the WPCRF address both point source and non-point source (NPS) pollution control facilities. In order to facilitate tracking of revenues received and to be in compliance with EPA's procedures, the program has established several activity account codes to identify the sources of revenues. The WPCRF program also tracks projects as loans progress, prioritizes projects for funding, and performs inspections during construction.

By helping local governments and other applicants improve and expand water pollution control infrastructure, the WPCRF program helps to protect the public's health and Hawaii's environment. Equally important, the WPCRF program plays a vital role in the economic development and vitality of Hawaii's communities. In this capacity, the WPCRF program has contributed to the State's economy by providing loans to approximately \$302 million worth of infrastructure projects in its 14 year history.

Chart 1 illustrates the value of loans the Program has made per year:

Chart 1

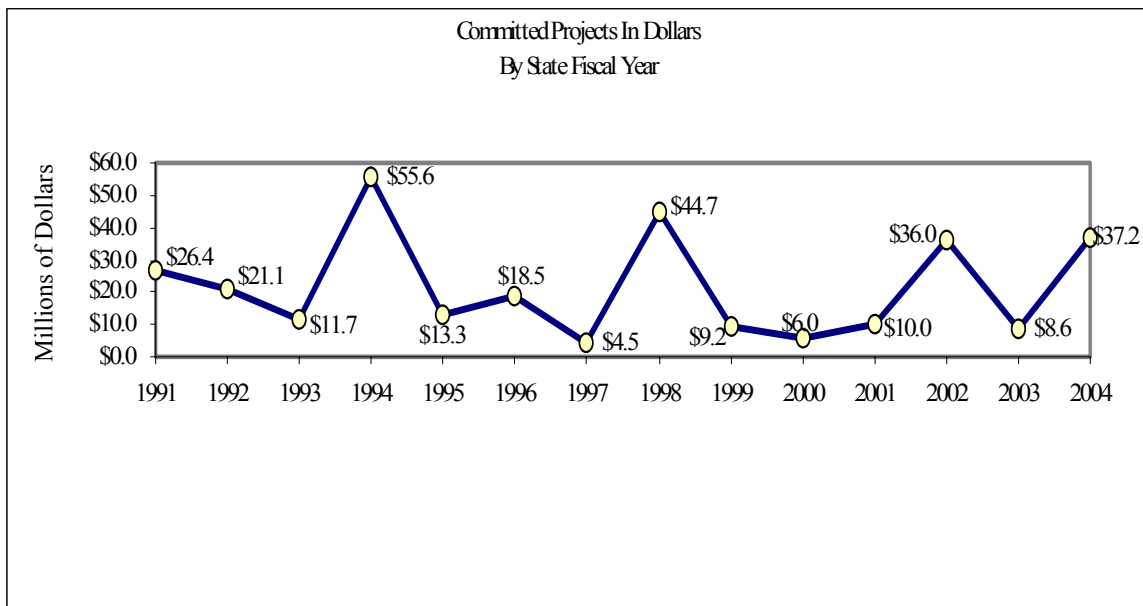
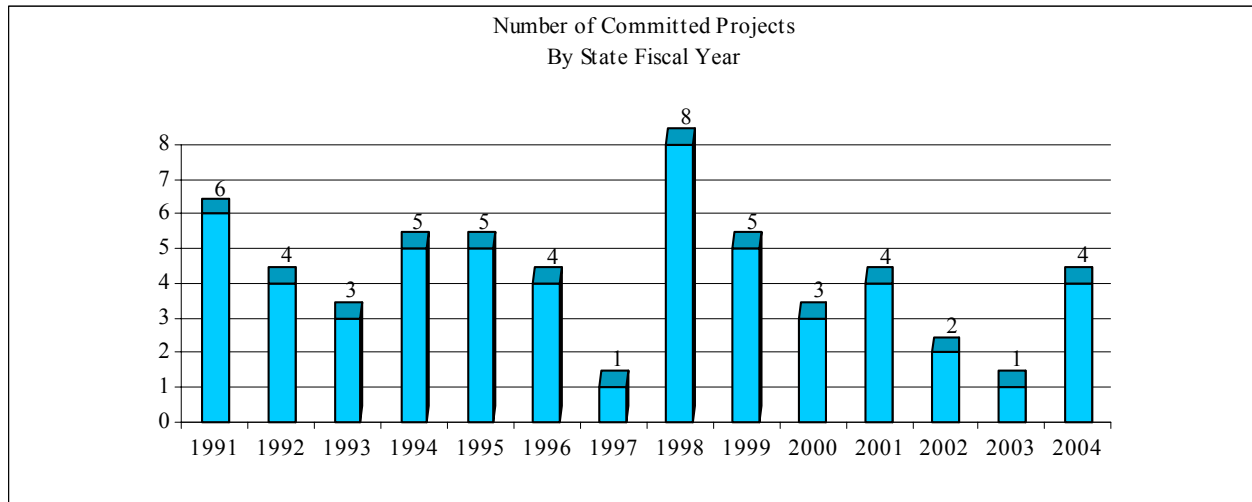


Chart 2 illustrates the number of loan commitments made by the WPCRF program per year:

Chart 2



Please also refer to attachment 2, Committed Projects by State Fiscal Year and Funding Source for additional details.

B. MAJOR INITIATIVES

1. Pursuant to the Act 200/03, the 2003 Hawaii State Legislature provided local match funds to the federal capitalization grant in the amount of \$2,086,000.

An overview of the WPCRF program for SFY 2004 includes the following:

- a. Funds withdrawn from the federal Automated Standard Application for Payments (ASAP) system: \$ 404,437.02
- b. Matching funds for FY 2003 Federal Capitalization Grant provided: \$ 2,086,000.00
- c. State match funds distributed: \$ 0.00
- d. Loans executed:

No Final Loan Agreements:	\$	0.00
Four Interim Loan Agreements:	\$	<u>38,495,806.00</u>
Total Loans Executed:	\$	38,495,806.00
- e. Principal repayments received: \$ 10,751,881.73
- f. Interest repayments received: \$ 4,073,081.65

2. The award of low-interest WPCRF loans involves a two-step process. First, an Interim Loan Agreement is prepared and signed based on initial cost estimates. Second, after project contracts (e.g. construction or equipment) are awarded, a Final Loan Agreement is processed and signed.

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

In SFY 2004, the following Interim Loan Agreements were processed and signed:

County	Project Description	Project Location*	Loan Amount
Honolulu	<u>Ala Moana Wastewater Pump Station Modification</u> (Work involves expanding the existing capacity of the pump station to accommodate future wastewater flows)	Senate District 13 House District 25	\$ 25,100,000.00
Hawaii	<u>Kalaniana'ole Highway Interceptor Sewer Rehabilitation</u> (Work involves rehabilitation of unlined, concrete gravity sewer pipe and 17 manholes)	Senate District 1 House District 2	\$ 5,000,000.00
Hawaii	<u>Hawaii County Cesspool Conversion Project</u> (Construction of septic tank systems to replace existing large capacity cesspools)	Senate District 1, 2, & 3 House District 1 thru 7	\$ 7,245,806.00
Kauai	<u>Kauai County Cesspool Conversion Project</u> (Construction of facilities to convert large capacity cesspools to septic tank systems)	Senate District 7 House District 14 & 15	\$ 1,150,000.00
<u>TOTAL INTERIM LOAN AGREEMENTS</u>			<u>\$ 38,495,806.00</u>

The following WPCRF projects, awarded Interim Loan Agreements in previous fiscal years, continued to be processed towards Final Loan Agreements in SFY 2004:

County	Project Description	Project Location*	Loan Amount
Kauai	<u>Waimea WWTP Backup Effluent Injection Well System</u> (Project will provide a reliable long-term system for effluent disposal)	Senate District 7 House District 14	\$ 750,000.00
Kauai	<u>Lihue WWTP Expansion Effluent Disposal System</u> (Project will construct new effluent injection wells to increase the effluent disposal capacity of the facility)	Senate District 7 House District 13	\$ 3,500,000.00
Honolulu	<u>Hart Street Wastewater Pump Station Alternative</u> (Renovation and expansion of the existing pump station facility)	Senate District 13 House District 30	\$ 24,315,576.50
Honolulu	<u>Waipahu Wastewater Pump Station Modification</u> (Work involves expanding the existing capacity of the pump station to accommodate future wastewater flows)	Senate District 19 House District 36	\$ 9,846,404.11
<u>TOTAL FINAL LOAN AGREEMENTS IN PROCESS</u>			<u>\$ 38,411,980.61</u>

In SFY 2004, there were no Final Loan Agreements that were processed and signed.

(* See Attachment 1 for WPCRF Project Location Maps)

C. GOALS AND ACCOMPLISHMENTS

Section 606(c) of the Clean Water Act requires the State to prepare a plan identifying the intended uses of funds in the WPCRF and to describe how those uses support the goals of the WPCRF program. The Intended Use Plan (IUP) must be prepared annually and made

available for public comment and review. The IUP is also a required element of the State's SRF Capitalization Grant Application to EPA.

The following information must be included in the IUP:

1. List of Projects;
2. Short and Long Term Goals;
3. Information on the SRF Activities to be Supported;
4. Assurances and Specific Proposals;
5. Criteria and Method for Distribution of Funds.

On April 11, 2003, the program published its IUP for SFY 2004. The following describes the results the program achieved relative to the stated goals contained in the IUP:

Long Term Goals:

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

To ensure compliance with federal and state water quality standards, the WPCRF Program gives priority to projects that are under compliance constraints involving either the federal or state standards. The Program also gives preference to projects needed to sewer existing communities and to fully utilize existing wastewater treatment facilities.

2. The WPCRF Program will assist the WPCRF Loan Applicants to protect the public health and environment of Hawaii from point source pollution.

Two of the WPCRF projects that were approved for funding during SFY 2004 involved the protection of the public health and the environment by the control of point source pollution. The modification to the Ala Moana Wastewater Pump Station which is a major pump station in the Sand Island wastewater system and next to Honolulu Harbor involves replacing equipment for better reliability as well as increased capacity. The rehabilitation of the Kalaniana'ole Highway Interceptor Sewer involves replacing an aging sewer line which has deteriorated to a state of near collapse. Major portions of the sewer line run along Hilo Bay's water front.

3. The WPCRF Program will assist the WPCRF Loan Applicants to protect the public health and environment of Hawaii from non-point source (NPS) pollution.

Two of the WPCRF projects that were approved for funding during SFY 2004 involved addressing non-point source pollution problems. The two projects were the Hawaii and Kauai County Cesspool Conversion Projects. These projects involve replacing large capacity cesspools with new wastewater systems.

4. The WPCRF Program will assist the WPCRF Loan Applicants to conserve and safely recycle wastewater effluent.

No WPCRF loans were made in this area during SFY 2004. However, the program does plan to fund at least one recycled water distribution project for the next fiscal year. Moreover, the program will continue to give projects involving recycling of wastewater effluent priority over other types of projects.

5. The WPCRF Program will establish a linked-deposit loan program or other financial program to fund nonpoint source projects on private lands.

The program has determined that participation in a linked deposit loan program would be minimal. With increased administrative needs to develop a new loan program and the added record-keeping associated with implementing such a loan program, it was decided that there was no advantage to the program in seeking further discussions on this matter. Therefore, in the near future, the program will not seek to establish a linked-deposit loan program. Instead, continued efforts in getting communities involved through sponsorships with ongoing WPCRF loans will be pursued.

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

The program continues to offer WPCRF loans at rates which are below market interest rates while at the same time, maintaining the strength of the fund. The program continues to pursue state matching funds from the Legislature and applying for EPA SRF capitalization grants. In addition, the program implemented loan fees which provide additional revenues to help administer the program. Both program and non-program costs are monitored to insure that funds are being properly utilized and to insure that program costs do not exceed revenues.

Short Term Goals:

1. The WPCRF Program will evaluate both water pollution control and growth-related needs to target the highest priority projects for WPCRF funding.

All of the projects approved for funding in SFY 2004 were evaluated both for water pollution control and growth related needs within the community and were determined to be the highest priority projects available for WPCRF funding at that time.

2. The WPCRF Program will give higher priority to documented compliance projects when such projects are presented for WPCRF funding.

Two of the SFY 2004 projects presented for WPCRF funding were documented compliance projects. The two projects are the Hawaii and Kauai County Cesspool Conversion Projects. The projects involve replacing large-capacity cesspools with new wastewater systems. For compliance with Federal Regulations 40 CFR § 144.88(a)(1)(i), these existing large-capacity cesspools must be closed by April 5, 2005. The Program gives highest priority to such projects when documented compliance projects exist.

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

Two of the WPCRF projects approved for funding in SFY 2004 involved the protection of the public health and the environment by the control of point source pollution. The modification to the Ala Moana Wastewater Pump Station which is a major pump station in the Sand Island wastewater system and next to Honolulu Harbor, involves replacing equipment for better reliability as well as increased capacity. The rehabilitation of the Kalaniana'ole Highway Interceptor Sewer involves replacing an aging sewer line which has deteriorated to a state of near collapse. Major portions of the sewer line run along Hilo Bay's water front.

4. To protect the public health and environment of Hawaii, the WPCRF Program will fund non-point source pollution control projects which deal with watershed restoration issues and address problems such as contamination from cesspool and septic systems, injection wells, animal waste areas, solid waste landfills, and underground storage tanks.

Two of the WPCRF projects that were approved for funding during SFY 2004 involved addressing non-point source pollution problems. The two projects were the Hawaii and Kauai County Cesspool Conversion Projects. These projects involve replacing large capacity cesspools with new septic tank systems. The program will continue to fund non-point source pollution control projects in the future.

5. To conserve the water resources of Hawaii, the WPCRF Program will support projects which conserve and safely recycle wastewater effluent.

No WPCRF loans were made in this area during SFY 2004. However, the program does plan to fund at least one recycled water distribution project for the next fiscal year. Moreover, the program will continue to give projects involving recycling of wastewater effluent priority over other types of projects.

6. To maintain the viability of the fund, the WPCRF Program will pursue annual State-match appropriations from the Legislature.

The program continues to pursue state-match funds to finance needed WPCRF projects. The 2003 Hawaii State Legislature appropriated \$2,086,000 in matching funds. Efforts will be maintained to obtain similar funding during the upcoming 2005 legislature session.

Other Accomplishments of the WPCRF Program

1. The 2002 Hawaii State Legislature passed Act 132 which changed the definition of eligible parties receiving loans to include private parties. Additionally, language was added to the statutes which provides interest rate subsidies to eligible parties by depositing revolving fund monies into interest bearing accounts in participating financial institutions that issue loans to eligible projects.

Due to the changes provided by Act 132, the program now has a mechanism that can provide assistance to private landowners. Commonly called the “Linked Deposit Program,” it involves an agreement between the Department of Health and a financial institution, like a bank, in which revolving funds would in essence provide an interest rate subsidy for loans to eligible projects by depositing revolving fund monies into interest-bearing accounts.

2. The program continues its efforts to fund non-point source pollution control projects. The Program will fund two non-point source projects that involves replacing large capacity cesspools with new wastewater systems in the Counties of Hawaii and Kauai.

FINANCIAL SECTION

The following is a summary of financial activities of the program for FY 2004 ending June 30, 2004. The DOH considers the WPCRF to be a special revolving fund. The fund was established to receive the proceeds of specific revenue sources such as Federal Capitalization Grants, State Capital Improvement Project (CIP) appropriations for State Match, loan repayments, interest earnings from investments and fees. In agreement with both EPA and State procedures, the program established several accounts (activity codes) for each specific revenue source.

A. INTERNAL CONTROLS

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

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

B. OVERVIEW OF THE FINANCIAL REPORT

The program's financial report consists of the financial statements, notes to the basic financial statements, and other pertinent information described as follows:

1. Financial Statements

The WPCRF consists of a group of related accounts which allows the program to categorize funds and revenues into specific program activities and objectives. The WPCRF program uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the WPCRF are categorized as proprietary funds.

2. Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the financial data provided.

3. Supplementary Information

In addition to the basic financial statements and the accompanying notes, the report also presents other supplemental information. Much of the supplemental information has been requested by EPA and has been gathered and presented in a format that has been agreed to between EPA and the program.

To better assist the reader, Tables 1 & 2 summarizes and compares the financial position of WPCRF program for fiscal years 2003 and 2004.

Financial Analysis of Enterprise Funds

The WPCRF program's basic financial statements are compiled in an enterprise fund format. Table 1 presents Net Assets and Table 2 presents Revenues, Expenses & Changes in Net Assets.

Summary of Net Assets

Table 1 compares the WPCRF program's Statement of Net Assets for the fiscal years ending June 30, 2004 and June 30, 2003.

Table 1

State of Hawaii Water Pollution Control Revolving Fund STATEMENT OF NET ASSETS		
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
ASSETS		
Current Assets		
Cash and cash equivalents in State Treasury (note C)	\$ 105,894,016.70	\$ 89,528,989.85
Accrued Interest (note D)	1,394,489.68	1,523,255.83
Accrued Administrative Loan Fees (note D)	138,431.11	186,681.10
Accrued Administrative loan fee, non-program (1%) (note D)	412,852.00	379,863.40
Accrued interest on investments	93,212.96	65,492.02
Due from federal government	3,321.03	400,076.32
Current maturities of loans receivable (note D)	11,036,854.28	10,589,680.38
Total current Assets	<u>118,973,177.76</u>	<u>102,674,038.90</u>
Loans Receivable (note D)	<u>144,414,443.58</u>	<u>151,865,605.15</u>
Total Receivable	<u>144,414,443.58</u>	<u>151,865,605.15</u>
Office Equipment	35,917.44	33,882.02
Accumulated Depreciation	(25,893.05)	(13,920.59)
Total of Office Equipment - net of Depreciation	<u>10,024.39</u>	<u>19,961.43</u>
TOTAL ASSETS	<u>\$ 263,397,645.73</u>	<u>\$ 254,559,605.48</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Payroll Payable	\$ 41,689.60	\$ 41,342.70
Accounts Payable	-	-
Total Liabilities	<u>41,689.60</u>	<u>41,342.70</u>
Net assets		
Invested in capital assets	10,024.39	19,961.43
Restricted	263,345,931.74	254,498,301.35
Unrestricted	-	-
Total Net assets	<u>263,355,956.13</u>	<u>254,518,262.78</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 263,397,645.73</u>	<u>\$ 254,559,605.48</u>

Restricted assets totaled 263,345,931.74 at the end of FY 2004 and consisted primarily of cash equivalents, investment and loan interest receivable, loan principal payments due in 2004, and other receivables. The two most significant sources of non-operating revenue were contributions received from the State Appropriation Act 200/03 in amount of \$2,086,000.00 and interest earned from investments totaling \$2,454,069.98. These amounts are shown in the Statement of Revenues, Expenses & Changes in Net Assets displayed below (Table 2).

Summary of Changes in Net Assets

Table 2 compares the revenues, expenses and changes in net assets of the WPCRF program for the fiscal years ending June 30, 2004 and June 30, 2003.

Table 2

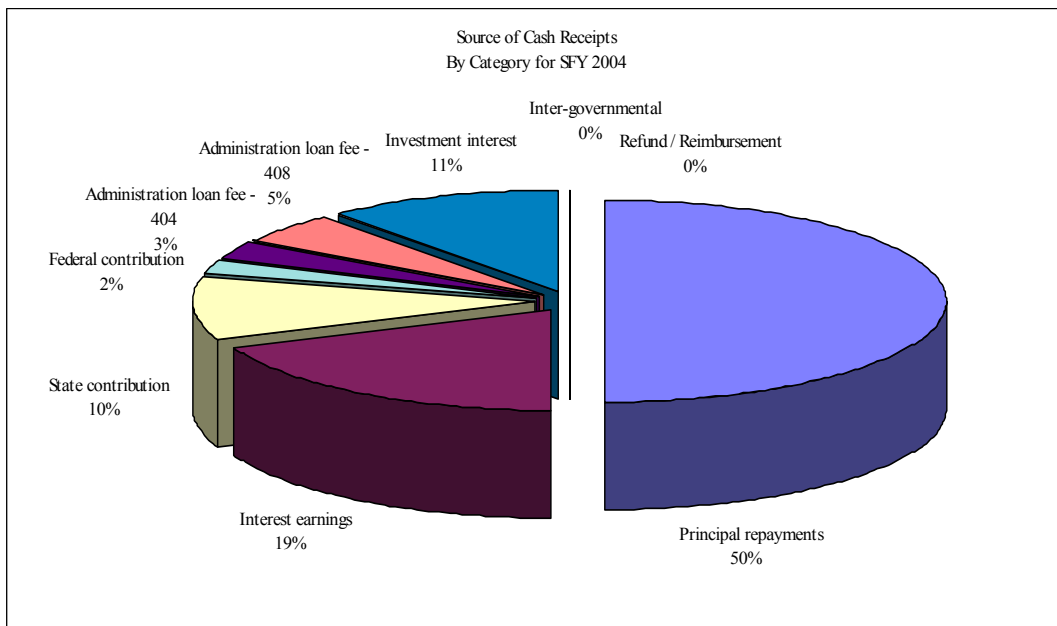
State of Hawaii Water Pollution Control Revolving Fund		
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS		
	Year Ended June 30, 2004	Year Ended June 30, 2003
REVENUES		
Interest earnings from loans (note B)	\$ 3,944,315.50	\$ 3,956,751.21
Administration loan fee earnings (note B)	521,532.85	623,519.73
Administration loan fee earnings - non-program (note B)	1,007,659.15	828,253.29
Total Revenues	<u>5,473,507.50</u>	<u>5,408,524.23</u>
EXPENSES		
Administrative expenses for SRF operation	8,038.05	41,071.04
Administrative expenses for State activities	519,348.56	455,145.76
Administrative expenses for State activities- non-program	656,179.25	706,217.80
Total Expenses	<u>1,183,565.86</u>	<u>1,202,434.60</u>
EXCESS REVENUES OVER EXPENSES	<u>4,289,941.64</u>	<u>4,206,089.63</u>
Non-operating Revenues		
Federal contribution	7,681.73	4,428,892.92
State matching contribution	2,086,000.00	2,094,000.00
Interest earnings from investment (note B)	2,454,069.98	2,535,929.29
Inter government transfer	-	685.08
Total Non-operating Revenues	<u>4,547,751.71</u>	<u>9,059,507.29</u>
EXCESS REVENUES OVER EXPENSES	<u>8,837,693.35</u>	<u>13,265,596.92</u>
Net assets at July 1, 2003 and 2002	<u>254,518,262.78</u>	<u>241,252,665.86</u>
Net assets at June 30, 2004 and 2003	<u><u>263,355,956.13</u></u>	<u><u>254,518,262.78</u></u>

In FY 2004, the WPCRF program earned \$2,454,069.98 of investment interest from cash deposited in the State of Hawaii Treasury and accrued investment interest. The total interest earnings from investments decreased by \$81,859.31 as compared to the amount earned in FY 2003 (Table 2).

Note: Hawaii Revised Statutes Section 38-3 requires collateralization of all public funds, except to the extent that the deposit at each financial institution is insured under the laws of the United States. Acceptable securities include: bonds, notes, bills and certificates of indebtedness of the United States or its agencies; bond notes or other indebtedness of the State of Hawaii or its counties or any other state or county of the United States; and any asset of the depository eligible to secure advances from the Federal Reserve Bank in an amount equal to their market value but not to exceed par value.

Chart 4 shows the sources of cash received for the year.

Chart 4



In FY 2004, the WPCRFR received \$569,782.84 in program income administration loan fees and \$974,670.55 in non-program income administration loan fees. The \$569,782.84 program income administration loan fees were collected from loans made with federal funds and the \$974,670.55 non-program income administration loan fees were collected from loans made with State and repayment funds.

Beginning in 2001, EPA SRF Capitalization Grants received were required to be recorded as revenue rather than as contributed capital as shown in previous years. Revenue received from EPA's federal contribution FY 2004 totaled \$404,437.02. This was \$3,624,379.58 lower than the previous fiscal year.

There were two major factors contributing to the lower amount of federal contribution funds received. First, the number and size of loans made by the program was lower than originally projected for FY 2004 and secondly, the timing of payment requests submitted by borrowers for project cost reimbursements were delayed due to staff shortages.

Federal law requires that the WPCRF program be operated in perpetuity. Because the State does not contribute any funds to the cost of administering the WPCRF program and its supporting activities, the program implemented loan fees in FY 1997 to help pay for the cost of administering the WPCRF program and other wastewater-related activities.

Administrative costs are prorated based on program activities and man-hours spent in each activity. The cost to administer the WPCRF program and its wastewater related activities for FY 2004 was \$1,173,282.28. Of this amount, \$5,411.49 was paid by federal capitalization grant funds; \$515,742.91 was paid by program loan fees; and \$652,127.88 was paid by non-program loan fees.

a. Program Activities:

- (1) The program continues to service 54 outstanding WPCRF loans, which total more than \$303 million.
- (2) The program reviewed planning documents (including the preliminary engineering reports, plans and specifications, environmental assessment documents, and federal requirement documents) for five (5) projects. They are the Nimitz Highway Reconstructed Sewer, Kuhua Camp Sewer System Rehabilitation, Kailua Wastewater Treatment Plant Disinfection Facility, Ala Moana Wastewater Pump Station Modifications, and Kalaniana'ole Highway Interceptor Sewer Rehabilitation projects.
- (3) The program executed four (4) interim loan agreements for WPCRF wastewater construction and cesspools conversion type projects.
- (4) The program conducted nine (9) construction inspections of ongoing WPCRF projects under construction.

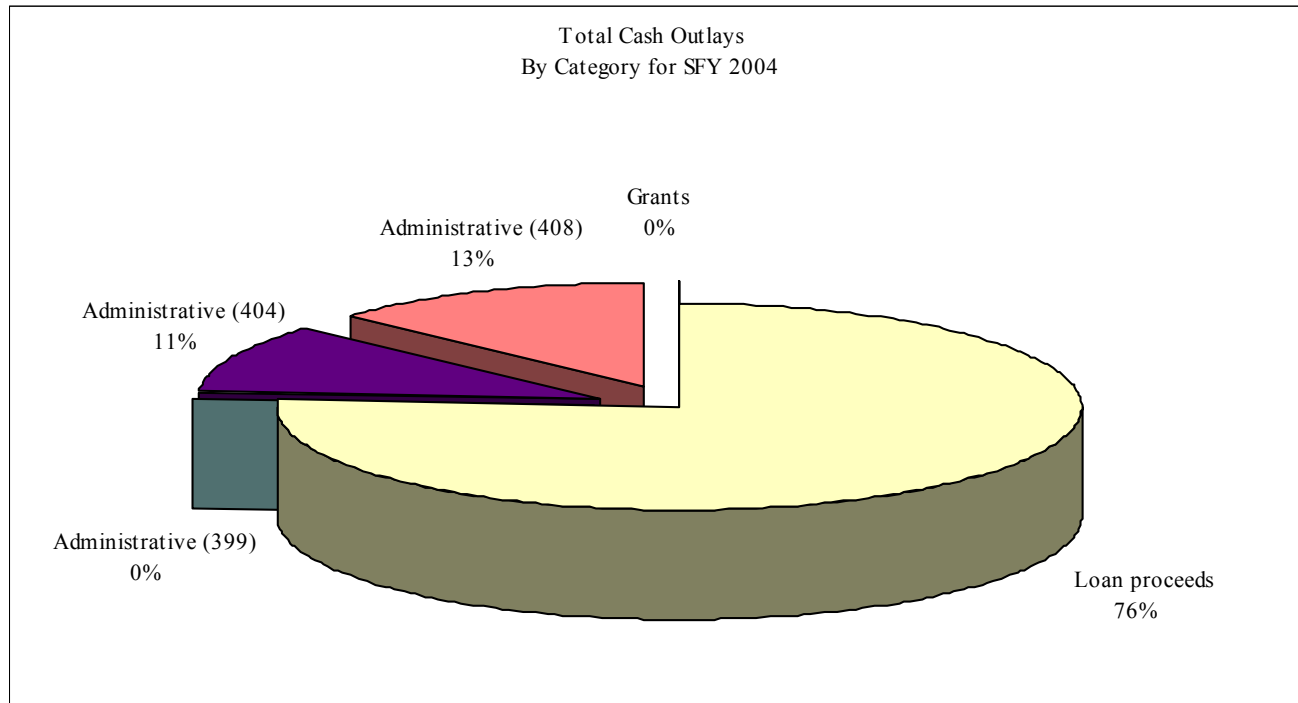
b. Non-Program Activities:

The program, as part of the State's Water Quality effort, conducted 51 operational and maintenance inspections of various public and private wastewater treatment facilities within the State. In addition, the program funded efforts in recycled water use, beneficial use of biosolids, animal waste management practices as well as wastewater investigation and enforcement activities.

The WPCRF program disbursed \$3,747,894.06 from loan proceeds during FY 2004. Also during this period, the program's expenditures (cash outlays) were: \$5,411.49 from the Personnel and Administrative account (399), \$515,742.91 from the Administrative Loan Fee account (404), and \$652,127.88 from the Administrative Loan Fee, Non-program Income, account (408).

Chart 5 below shows the significance of loan proceeds in relation to all costs associated with the WPCRF’s operations.

Chart 5



C. OTHER INFORMATION

This report was prepared in accordance with GAAP and Reporting Requirements requested by EPA as well as Hawaii Revised Statutes, Section 342-34.

Independent Audit: The accounting firm of Grant Thornton LLP has been selected by the DOH to perform a financial audit of the WPCRF Program’s activities. Although the activities and financial statements for fiscal year 2004 are unaudited as of the date of this report, Grant Thornton LLP did perform an annual financial audit of the WPCRF Program for FY 2003.

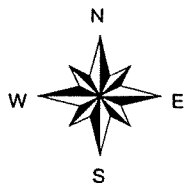
Grant Thornton’s financial statements and independent auditor’s report on the WPCRF for FY 2003 was published on October 22, 2003. On page 23 of the audit report, the report reads, “In our opinion, the State of Hawaii Water Pollution Control Revolving Fund complied, in all material respects, with the requirements governing types of activities and types of costs allowed or unallowed; matching; level of effort or earmarking requirements; special reporting requirements; special tests or provisions, and claims for advances and reimbursements that are applicable to its major Federal financial assistance program for the year ended June 30, 2003.”

The auditor's report on the WPCRF financial statements for FY 2004 will be completed and published some time in November 2004.

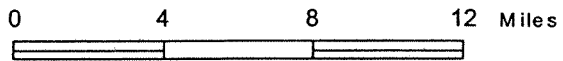
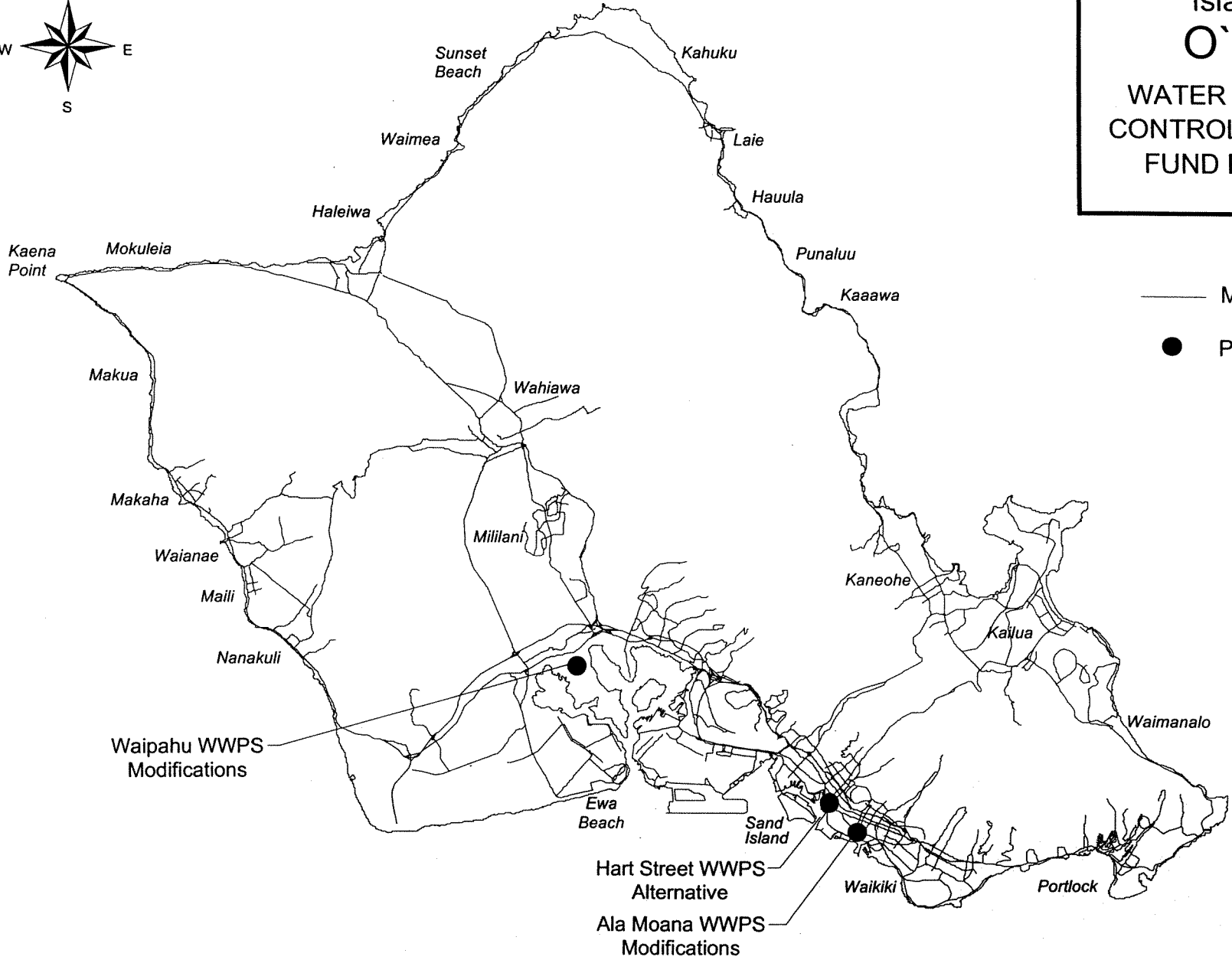
Program information: For any further information regarding this report, please contact the Wastewater Branch at (808) 586-4294.

ATTACHMENT 1

WPCRF PROJECT LOCATION MAPS

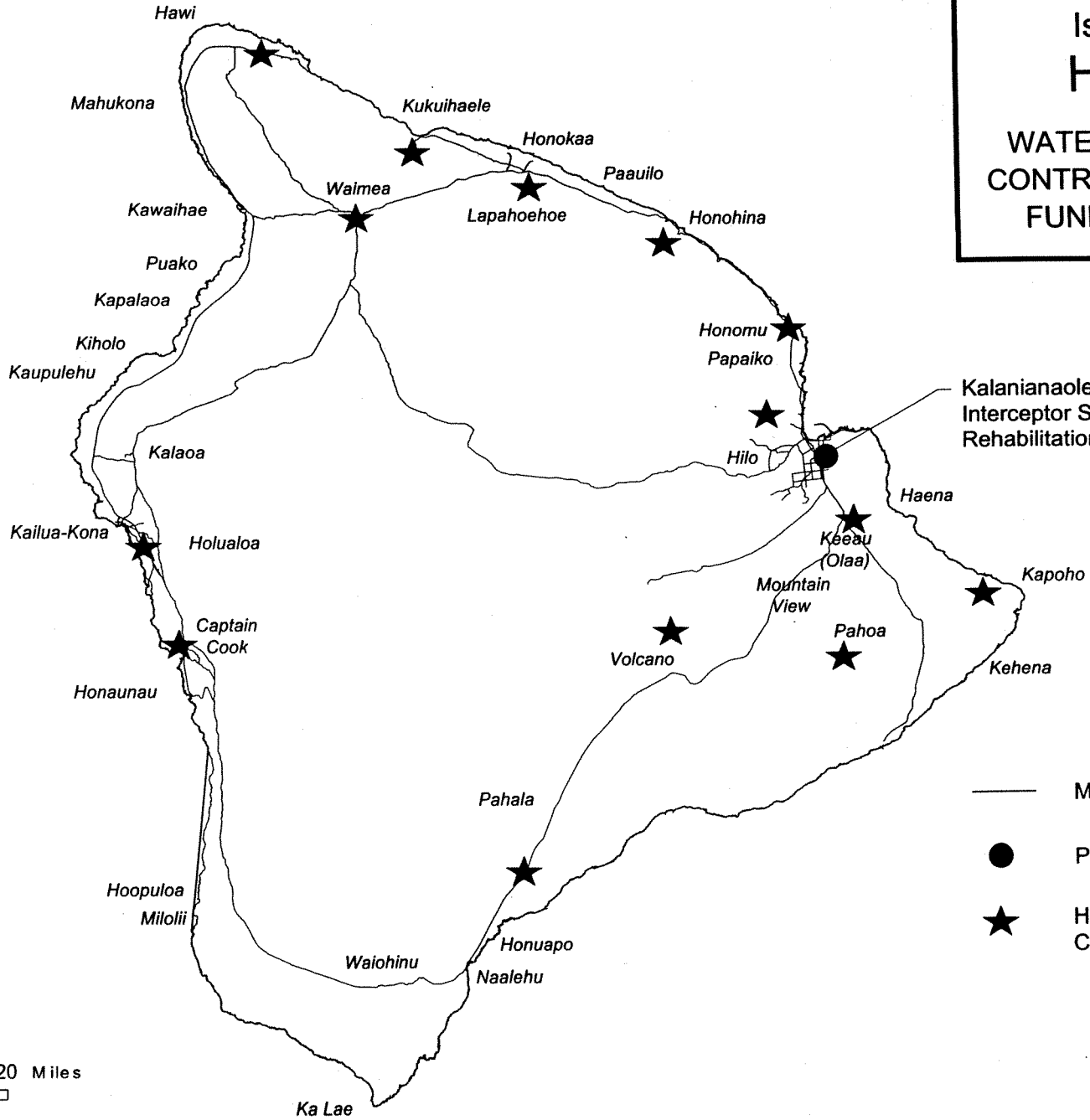
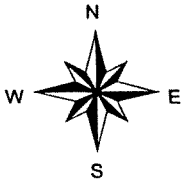


Island of
O`ahu
WATER POLLUTION
CONTROL REVOLVING
FUND PROJECTS



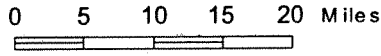
Island of Hawai`i

WATER POLLUTION CONTROL REVOLVING FUND PROJECTS



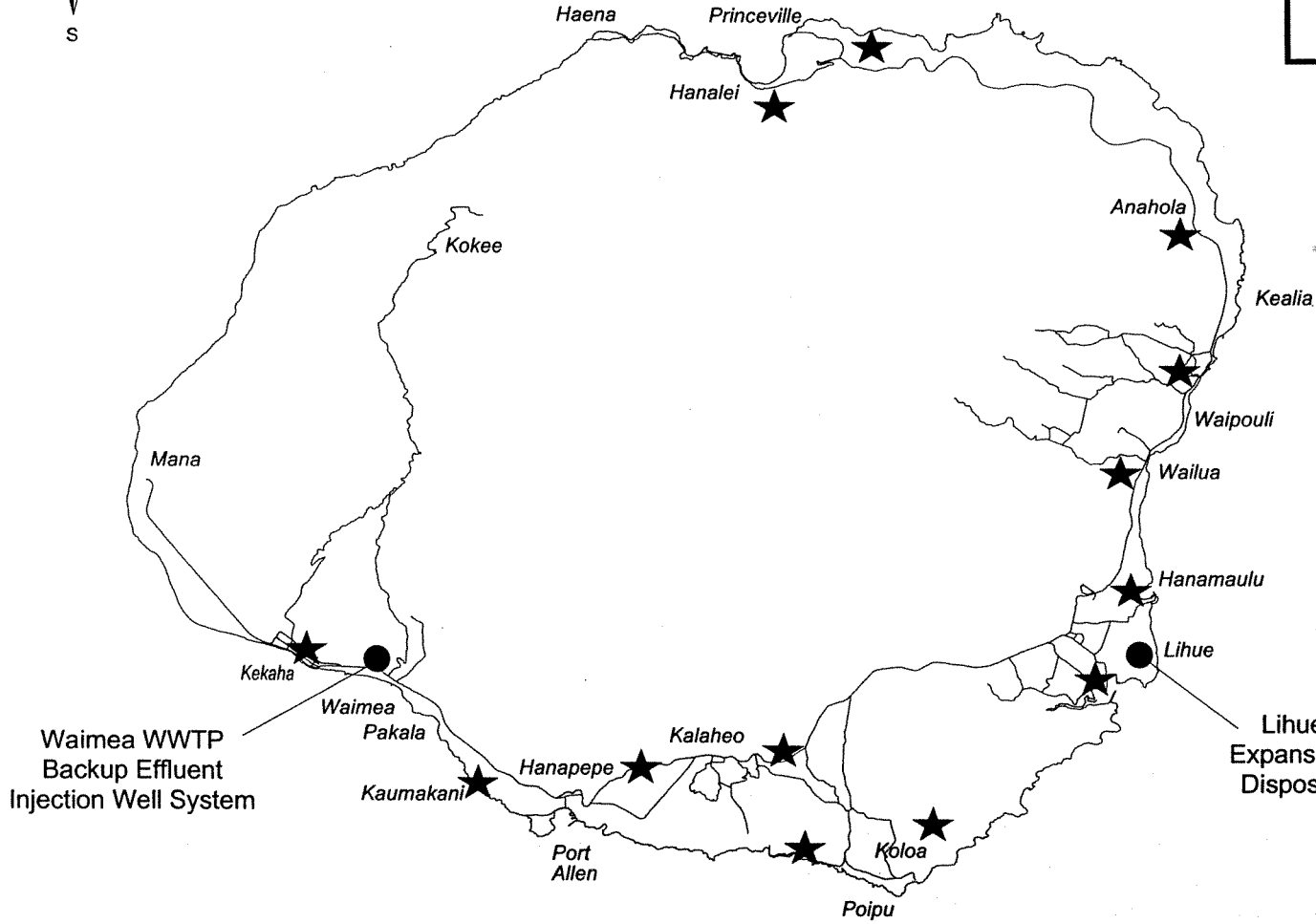
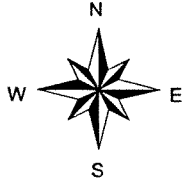
Kalaniana'ole Highway
Interceptor Sewer
Rehabilitation

- Major Roads
- Project Sites
- ★ Hawaii County Cesspool Conversion Project Sites

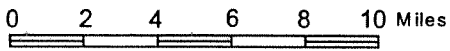


Island of Kaua`i

WATER POLLUTION CONTROL REVOLVING FUND PROJECTS



- Major Roads
- Project Sites
- ★ Kauai County Cesspool Conversion Project Sites



ATTACHMENT 2

**COMMITTED PROJECTS BY STATE FISCAL YEAR
AND FUNDING SOURCE**

State of Hawaii
Water Pollution Control Revolving Fund
Committed Projects by State Fiscal Year and Funding Source

June 30, 2004

Binding Commitment Date	Project Description	Final Agr Date	Rate	Loan Amount	← Source of Loan Funds →						
					398 Federal SRF	396 State SRF	395 State Loan	402 Principal from Repayment	403 Int fm Rpymnt & Investment	406 Principal from Repayment	407 Interest from Repayment
FY91:	3/1/1991 * 70-16 Kailua STP Modification, Ph. 2		2.50%	8,184,015.00	6,820,012.00	1,364,003.00					
	3/1/1991 * 70-18 Kaneohe STP Mod., Ph. 2		2.50%	1,061,464.00	445,269.00	149,597.00		466,598.00			
	3/1/1991 68-28 Miomio WWPS and FM		2.50%	1,303,134.00				1,303,134.00			
	3/1/1991 * 62-09 Hilo WWT & Convey. Proj., Ph II		2.50%	12,724,311.00	7,231,296.00	1,506,520.00		3,986,495.00			
	4/16/1991 55-02 Kapaa Sewer System, Ph. I		2.50%	2,654,640.00				2,654,640.00			
	4/19/1991 54-04 Lahaina WWRF Expansion		2.50%	500,000.00				500,000.00			
				<u>26,427,564.00</u>	<u>14,496,577.00</u>	<u>3,020,120.00</u>	<u>8,910,867.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FY92:	8/1/1991 62-05 Waiakea Houselot Inter. Sewer		2.50%	459,321.00				459,321.00			
	2/1/1992 * 70-19 Kailua WWTP Mod., Phase III		2.50%	18,039,641.00	14,364,021.00	2,999,959.00		675,661.00			
	3/23/1992 62-08 Waiakea Mill Pond Sewer Sys.		2.50%	1,300,000.00				1,300,000.00			
	4/20/1992 * 80-05 Kealakehe Land Disposal		2.50%	1,300,071.00	894,507.00	178,901.00		226,663.00			
				<u>21,099,033.00</u>	<u>15,258,528.00</u>	<u>3,178,860.00</u>	<u>2,661,645.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FY93:	3/1/1993 52-14 Wailuku / Kahului WWRF Mod.		2.50%	4,825,074.00				4,825,074.00			
	5/15/1993 1 * 80-08 Alii Dr. Inter. Sewer, "A" & "B"		2.78%	3,210,243.00	2,664,502.00	545,741.00					
	5/15/1993 1 * 80-09 Waiaha Bay SPS		2.78%	3,697,893.00	3,069,251.00	628,642.00					
				<u>11,733,210.00</u>	<u>5,733,753.00</u>	<u>1,174,383.00</u>	<u>4,825,074.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FY94:	8/1/1993 54-05 Lahaina WWRF Expansion		2.57%	7,700,000.00				7,700,000.00			
	8/1/1993 70-32 Kailua Mod., Ph. 3, Maint./Strg.		2.57%	5,003,603.00				5,003,603.00			
	11/8/1993 ^ 59-10 Lihue STP Optimization-Expan.		2.78%	14,101,193.00				14,101,193.00			
	1/3/1994 ^^ 53-20 Waianae WWTP, Secondary TF		2.06%	26,379,150.00	16,238,285.00	5,214,395.00		4,926,470.00			
	6/1/1994 * 62-04 Ainako Inter. Sewer, A & B		2.06%	2,374,000.00	1,978,333.00	395,667.00					
				<u>55,557,946.00</u>	<u>18,216,618.00</u>	<u>5,610,062.00</u>	<u>31,731,266.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FY95:	9/1/1994 2 * 53-20 Waianae WWTP, Secondary TF		2.06%	1,499,884.00	3,616,055.00	938,707.00		(3,054,878.00)			
	10/1/1994 * 80-10 Alii Dr. Interceptor Sewer, C & D		2.06%	3,780,000.00	3,150,000.00	630,000.00					
	12/1/1994 55-02A Kapaa Sewer Sys., Ph. I, CO #9		2.06%	698,790.00				698,790.00			
	6/15/1995 4 80-12 Alii Dr. Interceptor Sewer, E & F	1/16/1996	3.02%	2,300,000.00	2,300,000.00						
	6/15/1995 4 68-03 Kahaluu Housing WWPS & FM	6/1/1997	3.02%	3,540,884.00	2,593,828.00			947,056.00			
	6/15/1995 4 62-11 Kalanianaole CS	10/10/1995	3.02%	1,499,944.00				1,499,944.00			
				<u>13,319,502.00</u>	<u>11,659,883.00</u>	<u>4,015,707.00</u>	<u>(2,356,088.00)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FY96:	7/1/1995 4 80-11 Holualoa Bay SPS	10/1/1996	3.02%	3,080,000.00	3,080,000.00						
	12/15/1995 4 70-13 Kaneohe Bay S. WWPS No. 5	10/1/1997	3.02%	2,800,000.00	2,800,000.00						
	4/15/1996 54-07 Lahaina WWPS #3 Replac.		2.49%	3,308,239.00					3,308,239.00		
	5/15/1996 77-06 Kihei WWRF Expan. Ph. IIB		2.49%	9,350,108.00	9,350,108.00						
				<u>18,538,347.00</u>	<u>15,230,108.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,308,239.00</u>	<u>-</u>	<u>-</u>
FY97:	10/1/1996 ^4 77-09 Kihei Reuse Core Distrib. Sys.	8/1/1997	2.60%	4,460,000.00				4,460,000.00			
				<u>4,460,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,460,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>

Note: Legend located on page 5

State of Hawaii
Water Pollution Control Revolving Fund
Committed Projects by State Fiscal Year and Funding Source

June 30, 2004

Project Description	Rate	Loan Amount	← Source of Loan Funds →						
			398 Federal SRF	396 State SRF	395 State Loan	402 Principal from Repayment	403 Int fm Rpymnt & Investment	406 Principal from Repayment	407 Interest from Repayment
Planned Binding:									
62-18 Kalaniana'ole Hwy. Inter. Sewer (Adj Only - Int to Final)		(3,138,286.00)	(2,547,665.00)	(589,883.00)		(738.00)			
52-19 Wailuku-Kahului WWPS FM (Adj Only - Plan to Int)		-	2,547,665.00	589,883.00				(3,137,548.00)	
59-15 Lihue WWTP Digester Repair		3,450,000.00							3,450,000.00
54-12 Lahaina WWPS #5 & #6 FM		3,300,000.00	951,638.18	48,647.96				2,299,713.86	
52-19 Wailuku-Kahului WWPS FM		7,360,000.00	2,500,000.00	500,000.00				4,360,000.00	
55-05 Wailua/Kapaa Sewage Sys. Imp.		5,175,000.00	3,750,000.00	750,000.00				675,000.00	
52-30 Kahului WWPS Mod.		2,894,958.00	2,000,000.00	400,000.00				494,958.00	
62-19 Komohana Heights Sewer Ext.		2,300,000.00				2,300,000.00			
51-53 Honouliuli WWTP, Soilds Hand.		40,250,000.00				19,000,000.00		11,000,000.00	1,250,000.00
Total		61,591,672.00	9,201,638.18	1,698,647.96	-	21,299,262.00	15,692,123.86	12,450,000.00	1,250,000.00
Terminated Projects:									
6/15/1995 5 47-07 Waimea Disp.	4.02%	911,900.00				911,900.00			
7/1/1995 5 80-13 Pahoehoe fka Disappearing Sands	4.02%	2,000,000.00	2,000,000.00						
Total		2,911,900.00	2,000,000.00	-	-	911,900.00	-	-	-

Note: Legend located on page 5

June 30, 2004

Legend:

- * Title II Equivalency Projects.
 - ^ Project was modified with a Supplemental Loan Agreement, which affected the Binding Loan Commitment amounts.
-
- 1 The State did not receive the executed loan agreements for these projects until after the FY93 Annual Report was compiled.
 - 2 Supplemental Loan Agreement to the Primary or Final Loan Agreement.
 - 3 Interim Loan Agreements.
 - 4 Final Loan Agreements executed using the Interim Loan Agreement Binding Commitment Date.
 - 5 Projects terminated in FY97.
 - 6 Final Loan Agreement executed, however, the actual loan amount was lower than the amount shown in the Interim Loan Agreement.
 - 7 Final Loan Agreement executed, however, the actual loan amount was higher than the amount shown in the Interim Loan Agreement.

ATTACHMENT 3

WPCRF PROGRAM FINANCIAL REPORT

FINANCIAL STATEMENTS

STATE OF HAWAII
WATER POLLUTION CONTROL REVOLVING FUND (WPCRF)

June 30, 2004

TABLE OF CONTENTS

	<u>Page No.</u>
FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	1
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS	2
STATEMENT OF CASH FLOWS	3
NOTES TO FINANCIAL STATEMENTS	4

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

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
ASSETS		
Current Assets		
Cash and cash equivalents in State Treasury (note C)	\$ 105,894,016.70	\$ 89,528,989.85
Accrued Interest (note D)	1,394,489.68	1,523,255.83
Accrued Administrative Loan Fees (note D)	138,431.11	186,681.10
Accrued Administrative loan fee, non-program (1%) (note D)	412,852.00	379,863.40
Accrued interest on investments	93,212.96	65,492.02
Due from federal government	3,321.03	400,076.32
Current maturities of loans receivable (note D)	<u>11,036,854.28</u>	<u>10,589,680.38</u>
Total current Assets	<u>118,973,177.76</u>	<u>102,674,038.90</u>
Loans Receivable (note D)	<u>144,414,443.58</u>	<u>151,865,605.15</u>
Total Receivable	<u>144,414,443.58</u>	<u>151,865,605.15</u>
Office Equipment	35,917.44	33,882.02
Accumulated Depreciation	<u>(25,893.05)</u>	<u>(13,920.59)</u>
Total of Office Equipment - net of Depreciation	<u>10,024.39</u>	<u>19,961.43</u>
TOTAL ASSETS	<u>\$ 263,397,645.73</u>	<u>\$ 254,559,605.48</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Payroll Payable	\$ 41,689.60	\$ 41,342.70
Accounts Payable	<u>-</u>	<u>-</u>
Total Liabilities	<u>41,689.60</u>	<u>41,342.70</u>
Net assets		
Invested in capital assets	10,024.39	19,961.43
Restricted	263,345,931.74	254,498,301.35
Unrestricted	<u>-</u>	<u>-</u>
Total Net assets	<u>263,355,956.13</u>	<u>254,518,262.78</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 263,397,645.73</u>	<u>\$ 254,559,605.48</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Water Pollution Control Revolving Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

	Year Ended June 30, 2004	Year Ended June 30, 2003
REVENUES		
Interest earnings from loans (note B)	\$ 3,944,315.50	\$ 3,956,751.21
Administration loan fee earnings (note B)	521,532.85	623,519.73
Administration loan fee earnings - non-program (note B)	1,007,659.15	828,253.29
Total Revenues	5,473,507.50	5,408,524.23
EXPENSES		
Administrative expenses for SRF operation	8,038.05	41,071.04
Administrative expenses for State activities	519,348.56	455,145.76
Administrative expenses for State activities- non-program	656,179.25	706,217.80
Total Expenses	1,183,565.86	1,202,434.60
EXCESS REVENUES OVER EXPENSES	4,289,941.64	4,206,089.63
Non-operating Revenues		
Federal contribution	7,681.73	4,428,892.92
State matching contribution	2,086,000.00	2,094,000.00
Interest earnings from investment (note B)	2,454,069.98	2,535,929.29
Inter government transfer	-	685.08
Total Non-operating Revenues	4,547,751.71	9,059,507.29
EXCESS REVENUES OVER EXPENSES	8,837,693.35	13,265,596.92
Net assets at July 1, 2003 and 2002	254,518,262.78	241,252,665.86
Net assets at June 30, 2004 and 2003	263,355,956.13	254,518,262.78

The accompanying notes are an integral part of this statement.

State of Hawaii
Water Pollution Control Revolving Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Interest income from loans	\$ 4,073,081.65
Administrative Loan Fees	1,544,453.39
Principal repayments on loans	10,751,881.73
Disbursement of loan proceeds	(3,747,894.06)
Personnel costs	(1,053,195.70)
Payments to vendors	(118,050.80)
	<u>11,450,276.21</u>
Net cash flows used in operating activities	<u>11,450,276.21</u>
Cash flows from noncapital financing activities:	
	2,490,437.02
	<u>2,490,437.02</u>
Cash flows from capital and related financing activities:	
Purchase of equipment	(2,035.42)
	<u>(2,035.42)</u>
Net cash flows provided by investing activities	<u>(2,035.42)</u>
Cash flows from investing activities:	
Interest from investments	<u>2,426,349.04</u>
Net cash flows provided by investing activities	<u>2,426,349.04</u>
NET INCREASE IN CASH	<u>16,365,026.85</u>
Cash Balance at July 1, 2003	<u>89,528,989.85</u>
Cash Balance at June 30, 2004	<u>\$ 105,894,016.70</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 4,289,941.64
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	11,972.46
Changes in assets and liabilities:	
Decrease in interest receivable on loans	128,766.15
Decrease in administrative fee receivable on loans	15,261.39
Increase in accrued salaries and other administrative costs.	346.90
Other operating cashflows:	
Principal repayments	10,751,881.73
Loan proceeds	<u>(3,747,894.06)</u>
Net cash provided by operating activities	<u>\$ 11,450,276.21</u>

The accompanying notes are an integral part of this statement.

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - ESTABLISHMENT AND PURPOSE OF THE WPCRF

In accordance with the Clean Water Act of 1987 (the Act), the U.S. Environmental Protection Agency's (EPA) direct grants for the construction of wastewater treatment works ended in 1990. The Act provides for the creation of a State Revolving Fund (SRF) loan program to be capitalized in part by federal funds. The Act authorizes states to make loans for construction of publicly owned wastewater treatment works, for implementation of a non-point source pollution control management program and for implementation of an estuary conservation and management program. The SRF serves as the major federal funding source for future wastewater construction projects. Under the Act, the State of Hawaii (State) has received over \$72 million of SRF capitalization grants. The Act expired on September 30, 1995. However, the State continues to receive SRF capitalization grants annually from the U.S. EPA.

The 1988 State Legislature established a State Water Pollution Control Revolving Fund (WPCRF) program to initiate the federal loan program.

The purpose of the WPCRF is to provide loans in perpetuity to county, state, and private agencies for the construction of wastewater treatment facilities and for non-point source projects. Such loans may be at or below market interest rates and be fully amortized for a period not to exceed twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final agreement date, whichever is later.

Although some funds were used to provide grants, the State stopped awarding grants in March 1991. In 1996, Act 81 was enacted which deleted the Director's authority to provide grants from the WPCRF. Currently, the WPCRF is a loan program.

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE B - ACCOUNTING POLICIES

1. Financial Statement Presentation

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

The accompanying financial statements of the WPCRF have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This Statement established new financial reporting requirements for state and local governments in the United States of America. It requires new information and restructuring of much of the information that governments have presented in the past. The Department implemented these standards in June 2002.

Other GASB Statements are required to be implemented in conjunction with Statement 34. Therefore, the Department has implemented the following GASB Statements: Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments: Omnibus, and Statement 38, Certain Financial Statement Note Disclosures.

2. Measurement Focus and Basis of Accounting

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

Proprietary funds have the option under GASB 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, to elect to apply all Financial Accounting Standards Board (FASB)

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE B - ACCOUNTING POLICIES (continued)

pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The WPCRF has elected to not apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from 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 WPCRF are interest income and administrative loan fees on loans made to county governments. Federal grants, State matching funds, and interest income from investments are reported as nonoperating income.

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

3. Capital Assets

Capital assets, which include property and equipment, are reported in financial statements. Management capitalizes equipment if the cost is in excess of \$1,000 and the useful life exceeds one year.

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

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

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE B - ACCOUNTING POLICIES (continued)

4. Administration Costs

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

5. Fund Accounts

The WPCRF consists of the State Revolving Fund (SRF) and State Activity. The SRF consists of the state match, federal capitalization grant loans, federal set aside funds, principal loan repayments, and interest from loans and investments.

The State Activity consists of administration loan fees and State loan funds.

6. Use of Estimates

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

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE C - CASH AND CASH EQUIVALENTS

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

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

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

Since all of the WPCRF's cash is included in the State cash pool, the category of risk is not determinable at the Fund level.

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE D - LOANS RECEIVABLE

At June 30, 2004, the WPCRF had loans receivable from the following government entities:

	<u>SRF Activity</u>	<u>State Activity</u>
Nineteen loans receivable from City & County of Honolulu; due in annual or semi-annual payments, including interest at 2.06% 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 date.	\$ 78,876,514.85	\$ 6,414,884.76
Fourteen loans receivable from County of Hawaii; due in annual or semi-annual payments, including interest at 2.06% 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 date.	\$ 24,309,926.81	\$ 5,187,445.19
Ten loans receivable from County of Maui; due in annual or semi-annual payments, including interest at 2.34% to 2.60% commencing not later than one year after project completion, notice to proceed, or loan agreement date.		

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE D - LOANS RECEIVABLE (continued)

	<u>SRF Activity</u>	<u>State Activity</u>
Final payment is due not later than twenty years after project completion date.	\$ 24,008,266.24	\$ 7,057,460.45
Three loans receivable from County of Kauai; due in annual, semi-annual or quarterly payments, including interest at 2.06% 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 date.	\$ <u>- 0 -</u>	\$ <u>9,596,799.56</u>
Total	\$127,194,707.90	\$28,256,589.96

Loans mature at various dates through 2022. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2005	\$ 11,036,854.28
SFY2006	\$ 11,312,219.15
SFY2007	\$ 11,596,782.15
SFY2008	\$ 11,884,984.82
SFY2009	\$ 12,184,776.30
Thereafter	\$ <u>97,435,681.16</u>
	<u>\$155,451,297.86</u>

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE D - LOANS RECEIVABLE (continued)

As of June 30, 2004, accrued interest receivable, accrued administration loan fee as program income, and accrued administration loan fee as non-program income on loans totaled \$1,394,489.68, \$138,431.11, and \$412,852.00, respectively.

The program believes that all loans will be repaid according to the loan terms. Accordingly, no provision for uncollectible amounts has been recorded.

As of June 30, 2004, the WPCRF has committed to make additional loans to the following government entities:

City & County of Honolulu	\$ 59,261,980.61
County of Hawaii	12,245,806.00
County of Kauai	5,400,000.00
County of Maui	<u>0.00</u>
Total	<u>\$ 76,907,786.61</u>

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE E - CONTRIBUTED CAPITAL

The WPCRF is capitalized by grants from EPA authorized by Title VI of the Clean Water Act with matching funds from the State. As of June 30, 2004, EPA has awarded \$169,799,211.00 to the State, of which \$127,127,906.65 has been drawn for loans and program administration expenses. The Hawaii State Legislature has appropriated \$33,959,842.67 in matching funds, of which \$32,261,194.71 has been utilized.

The following summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2004:

<u>Budget Period</u>	<u>FFY</u>	<u>Total Amount</u>	<u>Funds Cash Draws</u>	<u>Available</u>
09/29/89 - 09/30/96	89	\$ 7,568,001.00	\$ 7,568,001.00	\$ -
09/26/90 - 09/30/97	90	\$ 7,532,600.00	\$ 7,532,600.00	\$ -
10/01/91 - 09/30/98	91	\$ 15,894,300.00	\$ 15,894,300.00	\$ -
10/01/92 - 09/30/06	92	\$ 15,048,400.00	\$ 14,911,413.08	\$ 136,986.92
10/01/93 - 09/30/03	93	\$ 16,947,877.00	\$ 16,947,877.00	\$ -
09/19/94 - 09/30/06	94	\$ 9,769,484.00	\$ 9,586,652.43	\$ 182,831.57
04/05/95 - 09/30/02	95	\$ 11,110,859.00	\$ 11,110,859.00	\$ -
01/26/96 - 09/30/06	96	\$ 11,316,361.00	\$ 10,352,348.31	\$ 964,012.69
09/01/97 - 09/30/04	97	\$ 11,044,606.00	\$ 10,721,512.83	\$ 323,093.17
09/23/98 - 09/30/05	98	\$ 10,662,341.00	\$ 10,235,847.00	\$ 426,494.00
09/08/99 - 09/30/06	99	\$ 11,550,624.00	\$ 8,175,200.00	\$ 3,375,424.00
05/21/01 - 09/30/07	00	\$ 10,407,600.00	\$ -	\$10,407,600.00
03/08/02 - 09/30/08	01	\$ 10,363,068.00	\$ 4,091,296.00	\$ 6,271,772.00
10/01/03 - 09/30/09	02	\$ 10,325,106.00	\$ -	\$10,325,106.00
04/15/04 - 09/30/10	03	\$ 10,257,984.00	\$ -	\$10,257,984.00
		\$169,799,211.00	\$127,127,906.65	\$42,671,304.35

State of Hawaii

Water Pollution Control Revolving Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2004

NOTE E - CONTRIBUTED CAPITAL (continued)

The following summarizes the State match funds for each EPA capitalization grant awarded to the WPCRF. This list shows the federal fiscal year (grant year), source of state funds, and dollar amount of state match for each EPA capitalization grant as of June 30, 2004.

The State Match Information: