



**ARTHURANDERSEN**

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Financial Statements  
As of June 30, 2000 and 1999  
Together with Auditors' Report



**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Water Supply,  
City and County of Honolulu:

We have audited the accompanying balance sheets of the Board of Water Supply (the Board), City and County of Honolulu, as of June 30, 2000 and 1999, and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Water Supply, City and County of Honolulu as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of property, plant and equipment and long-term debt are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Honolulu, Hawaii  
December 8, 2000

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Balance Sheets  
June 30, 2000 and 1999

	<u>Assets</u>	
	<u>2000</u>	<u>1999</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Utility plant in service	\$1,009,314,906	\$ 947,719,975
Construction work in progress	71,337,815	44,052,494
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	1,080,652,721	991,772,469
Accumulated depreciation	(361,175,758)	(340,286,211)
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Property, plant and equipment, net	719,476,963	651,486,258
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<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	20,152,661	10,141,717
Investments:		
Bank repurchase agreements	121,300,000	152,400,000
Time certificates of deposit	8,600,000	17,100,000
Government agency securities	22,336,937	2,199,574
Interest receivable	3,832,078	3,321,208
Customer receivables:		
Billed, less allowance for uncollectable accounts of \$1,318,000 and \$1,329,000	6,630,557	6,257,946
Unbilled	7,239,594	6,693,157
Other receivables	548,904	355,519
Materials and supplies	3,302,046	2,856,906
Prepaid expenses	16,996	128,486
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Total current assets	193,959,773	201,454,513
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<b>RESTRICTED ASSETS:</b>		
Cash and cash equivalents	2,823,952	2,044,681
Investments:		
Bank repurchase agreements	45,400,000	81,500,000
Time certificates of deposit	3,000,000	1,100,000
Government agency discount notes	32,723,754	5,497,514
Other receivables, less allowance for uncollectable accounts of \$1,332,000 in 2000	1,174,025	560,871
Interest receivable	2,221,234	2,323,377
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Total restricted assets	87,342,965	93,026,443
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<b>OTHER ASSETS</b>	547,359	580,983
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	\$1,001,327,060	\$ 946,548,197
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The accompanying notes are an integral part of these financial statements.

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Balance Sheets  
June 30, 2000 and 1999

Fund Equity and Liabilities

	<u>2000</u>	<u>1999</u>
<b>FUND EQUITY:</b>		
Contributions in aid of construction:		
Government	\$ 114,585,844	\$ 106,348,737
Other	389,442,720	367,611,162
	<u>504,028,564</u>	<u>473,959,899</u>
Retained earnings	363,998,764	338,798,865
	<u>868,027,328</u>	<u>812,758,764</u>
LONG-TERM DEBT, net of current portion	<u>50,260,000</u>	<u>52,870,000</u>
<b>CURRENT LIABILITIES:</b>		
Payable from current assets:		
Current portion of general obligation water bonds	2,185,000	2,850,000
Accounts payable	3,509,244	2,657,707
Accrued CASE fees	8,412,654	-
Contracts payable, including retainages	7,312,730	6,567,016
Accrued interest payable	663,759	695,161
	<u>22,083,387</u>	<u>12,769,884</u>
Payable from restricted assets:		
Current portion of water system revenue bonds	425,000	410,000
Contracts payable, including retainages	2,424,070	541,621
Other	6,032	6,032
	<u>2,855,102</u>	<u>957,653</u>
Total current liabilities	<u>24,938,489</u>	<u>13,727,537</u>
<b>OTHER LIABILITIES:</b>		
Customer advances for plant construction	48,606,810	54,124,688
Accrued vacation and compensatory pay	7,127,231	7,149,460
Accrued workers' compensation	1,382,768	951,842
Other	984,434	4,965,906
	<u>58,101,243</u>	<u>67,191,896</u>
Total other liabilities	<u>58,101,243</u>	<u>67,191,896</u>
	<u>\$1,001,327,060</u>	<u>\$ 946,548,197</u>
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The accompanying notes are an integral part of these financial statements.

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

**Statements of Income and Retained Earnings  
For the Years Ended June 30, 2000 and 1999**

	<u>2000</u>	<u>1999</u>
<b>OPERATING REVENUES:</b>		
Water sales	\$ 99,260,105	\$ 97,580,622
Other, principally contract and service fees (net of expenses of \$604,000 in 2000 and \$648,000 in 1999)	484,764	1,537,626
	<u>99,744,869</u>	<u>99,118,248</u>
<b>Total operating revenues</b>		
<b>OPERATING EXPENSES:</b>		
Depreciation	24,443,156	23,504,770
Administrative and general	18,717,007	18,382,920
Maintenance	14,765,091	16,794,215
Power and pumping	12,281,709	11,080,384
CASE fees	8,412,654	-
Transmission and distribution	5,665,174	5,101,103
Customers' accounting and collection	3,642,724	4,094,761
Water treatment	171,403	170,847
Source of supply	14,540	369,185
	<u>88,113,458</u>	<u>79,498,185</u>
<b>Total operating expenses</b>		
<b>Operating income</b>	<u>11,631,411</u>	<u>19,620,063</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest revenue	14,392,767	13,956,231
Interest expense, net of interest capitalized of \$2,200,000 and \$1,027,000	(999,322)	(2,334,727)
Other	175,043	181,366
	<u>13,568,488</u>	<u>11,802,870</u>
<b>Total nonoperating revenues</b>		
<b>Net income</b>	25,199,899	31,422,933
<b>RETAINED EARNINGS, beginning of year</b>	338,798,865	307,375,932
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 363,998,764</u> =====	<u>\$ 338,798,865</u> =====

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

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Statements of Cash Flows  
For the Years Ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 99,429,752	\$ 99,422,143
Cash payments to suppliers for goods and services	(30,376,900)	(27,974,597)
Cash payments to employees for services	(28,545,631)	(25,337,937)
Other revenues	175,043	181,366
	<u>40,682,264</u>	<u>46,290,975</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets, net of contributions in aid of construction	(68,674,692)	(41,334,990)
Principal paid on bonds	(3,260,000)	(3,730,000)
Interest paid on bonds	(3,182,021)	(3,363,494)
Customer advances for capital projects	4,804,227	13,372,056
	<u>(70,312,486)</u>	<u>(35,056,428)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(395,087,673)	(534,731,655)
Proceeds from maturity of investments	421,524,070	518,934,567
Interest on investments	13,984,040	14,870,522
	<u>40,420,437</u>	<u>(926,566)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>10,790,215</b>	<b>10,307,981</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>12,186,398</b>	<b>1,878,417</b>
<b>CASH AND CASH EQUIVALENTS, end of year (including \$2,823,952 and \$2,044,681 in restricted accounts)</b>	<b>\$ 22,976,613</b> =====	<b>\$ 12,186,398</b> =====

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

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Statements of Cash Flows  
For the Years Ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 11,631,411	\$ 19,620,063
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	24,443,156	23,504,770
Other revenues	175,043	181,366
(Increase) decrease in assets:		
Customer receivables	(919,048)	(344,015)
Materials and supplies	(445,140)	(284,663)
Prepaid expenses	111,490	(42,106)
Other assets	(6,064)	(270,284)
Increase (decrease) in liabilities:		
Accounts payable	851,537	597,406
Accrued CASE fees	8,412,654	-
Accrued vacation	(22,229)	(264,393)
Accrued workers' compensation	430,926	(104,783)
Other liabilities	(3,981,472)	3,697,614
Total adjustments	<u>29,050,853</u>	<u>26,670,912</u>
Net cash provided by operating activities	<u>\$ 40,682,264</u> =====	<u>\$ 46,290,975</u> =====

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:**

The Board received approximately \$19,312,000 and \$20,975,000 in contributions of property, plant and equipment from governmental agencies, developers and customers which are recorded as contributions in aid of construction at their cost or estimated cost for the years ended June 30, 2000 and 1999.

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

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Notes to Financial Statements  
June 30, 2000 and 1999

1. General and Summary of Significant Accounting Policies

a. Operations

The Charter of the City and County of Honolulu provides for the operation of the Board of Water Supply (the Board) as a semi-autonomous body of the City and County of Honolulu government (the City). The Board has full and complete authority to manage, control and operate the City's water system and related properties.

b. Financial Statement Presentation

The Board is a component unit of the City (the primary government).

The accompanying financial statements present only the activities of the Board and do not include other organizations, activities and functions of the City. Accordingly, the accompanying financial statements are not intended to present fairly the financial position of the City and the results of operations and cash flows of the City's discretely presented component units.

The Board follows Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." Under GASB No. 20, the Board applies all applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Board does not apply FASB Statements and Interpretations issued after November 30, 1989.

c. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

d. Regulation and Water Rates

Article VII of the Revised Charter of the City and County of Honolulu (the City Charter) states that the Board's seven-member board has the authority to establish and adjust water rates and charges so that the revenues derived shall be sufficient to make the Board self-supporting. The board is required to follow certain procedures that include holding public hearings before implementing changes in the water rate schedules.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost and include contributions by governmental agencies, private subdividers and customers at their cost or estimated cost of new construction, which approximates fair value.



Major replacements, renewals and betterments are capitalized. Interest costs are capitalized during the construction period of major capital projects. The Board also capitalizes certain indirect costs to construction work based upon actual construction direct labor. Maintenance, repairs and replacements that do not improve or extend the lives of the assets are charged to expense.

Depreciation is computed over the estimated useful lives of the various asset groups using the straight-line method applied to the beginning-of-the-year costs. Depreciation on both purchased and contributed assets is charged against operations.

The ranges of estimated economic useful lives of plant and equipment are as follows:

Source of Supply Plant	20 to 100 years
Pumping Plant	20 to 50 years
Water Treatment Plant	20 to 30 years
Transmission and Distribution Plant	13-1/3 to 50 years
General Plant	8 to 50 years

f. Cash and Cash Equivalents

The Board considers all cash on hand, demand deposits and short-term investments (including restricted assets) with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

g. Materials and Supplies

Materials and supplies are stated at the lower of average cost (which approximates the first-in, first-out method) or market.

h. Water System Facilities Charge

A water system facilities charge is levied against all new developments requiring water from the Board's systems, except those developments that have paid for and installed a complete water system, including source, transmission and daily storage facilities. The amounts collected are recorded as customer advances and are used to construct water facilities. Upon completion of construction, the amounts collected are reclassified to contributions in aid of construction.

i. Accrued Vacation and Compensatory Pay

Vacation is earned at the rate of one and three quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days.

In accordance with GASB No. 16, "Accounting for Compensated Absences," the Board records compensated absences and additional amounts for certain salary-related payments including payroll taxes and fringe benefits.

j. Risk Management

The Board is exposed to various risks of loss from: (1) torts (2) theft of, damage to and destruction of assets, (3) employee injuries and illnesses, (4) natural disasters, (5) employee health, dental and accident benefits, and (6) miscellaneous others. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims in excess of this commercial coverage was not significant in any of the three preceding years. The Board is partially self-insured for workers' compensation claims and judgements as discussed in Note 10.

k. Revenue Recognition

The Board's policy is to bill customers on a cyclical monthly or bimonthly basis for water usage. The accrual for unbilled water revenues reflected in the accompanying financial statements is based on estimated usage from the latest meter reading date to the end of the fiscal period.

l. Pension Expense

Pension costs are based upon actuarial computations and include current service costs and amortization of prior service costs. The Board's policy is to fund pension costs accrued.

2. Deposits and Investments

Cash collected by the Board is deposited in separate accounts maintained by the Department of Budget and Fiscal Services of the City. The Hawaii Revised Statutes (HRS) provide for the City's Director of Finance to deposit the cash with any national or state bank or federally-insured savings and loan association authorized to do business in the State of Hawaii, provided that all deposits are fully insured or collateralized.

The HRS authorize the Board to invest, with certain restrictions, in obligations of the State of Hawaii or the United States, in federally-insured savings accounts, time certificates of deposit, and bank repurchase agreements with federally-insured banks and savings and loan associations authorized to do business in the State of Hawaii.

At June 30, 2000 and 1999, cash, bank repurchase agreements, time certificates of deposit and government agency discount notes of approximately \$256,337,000 and \$271,983,000, respectively, were held by the City on behalf of the Board. The original maturity of these investments are less than one-year therefore the Board accounts for these investments at cost. The carrying value of these investments as of June 30, 2000 and 1999, respectively, approximated their market value.

These balances were fully insured or collateralized with securities held by the City's agent in the City's name.

3. Restricted Assets

At June 30, 2000 and 1999, restricted assets were held for the following purposes:

	<u>2000</u>	<u>1999</u>
Construction	\$ 84,449,791	\$ 89,501,243
Insurance reserve	-	640,472
Bond interest and redemption	890,209	884,127
Renewals and replacements	2,002,965	2,000,601
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Total	\$ 87,342,965	\$ 93,026,443
	=====	=====

4. Long-Term Debt

At June 30, 2000 and 1999, long-term debt consisted of the following:

	<u>2000</u>	<u>1999</u>
General Obligation Water Bonds, 4.75 percent to 9.5 percent	\$ 36,050,000	\$ 38,900,000
Water System Revenue Bonds, 4.35 percent to 5.8 percent	16,820,000	17,230,000
	<u>52,870,000</u>	<u>56,130,000</u>
Current portion	(2,610,000)	(3,260,000)
	<u>\$ 50,260,000</u>	<u>\$ 52,870,000</u>
Noncurrent portion	<u>=====</u>	<u>=====</u>

Principal and interest payments on general obligation water bonds and water system revenue bonds are to be paid from the Board's revenue. The full faith and credit of the City is pledged for the payment of the general obligation water bonds. General obligation water bonds are subject to redemption on and after specified dates prior to maturity at the option of the City, upon request to the Board, at prices ranging from 100 to 101 percent of face value. Water system revenue bonds are subject to redemption on and after specified dates prior to maturity at the option of the Board at prices ranging from 100 to 101 percent of face value.

Future bond principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2001	\$ 2,610,000	\$ 2,943,000	\$ 5,553,000
2002	2,765,000	2,784,000	5,549,000
2003	2,495,000	2,655,000	5,150,000
2004	2,080,000	2,529,000	4,609,000
2005	2,185,000	2,414,000	4,599,000
Thereafter	40,735,000	17,168,000	57,903,000
	<u>\$52,870,000</u>	<u>\$30,493,000</u>	<u>\$83,363,000</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>

In December 1992, the Board issued \$38,425,000 in general obligation water bonds to retire \$19,375,000 of the Board's outstanding 1990 Series bonds and \$9,150,000 of its outstanding 1987 Series bonds with the remainder to fund the Board's capital improvement projects. An irrevocable trust with an escrow agent was funded to provide for all future debt service payments on the 1990 and 1987 Series bonds. As a result, the 1990 and 1987 Series bonds were considered to be defeased and the liabilities for those bonds were removed from the Board's financial statements in fiscal 1993. At June 30, 2000 the outstanding defeased bonds were fully repaid and released from escrow.

5. Related Party Transactions

a. Billing and Collection Services

The Board has an agreement with the Department of Wastewater Management, City and County of Honolulu (DWM) to provide certain services through June 30, 2004, relating to the billing and collection of sewer service charges. Although the services remained consistent from year to year, fees related to these services were negotiated at approximately \$100,000 in 2000 and \$1,088,000 in 1999. Fees will be renegotiated for the remaining years of the contract based on a study of the incremental costs incurred by the Board to provide these services. The revenues related to these fees are included in other operating revenues in the accompanying statements of income and retained earnings.

b. Central Administrative Services Expense (CASE) Fee

On June 30, 2000, the Board entered into an agreement with the City to pay a Central Administrative Services Expense (CASE) fee for treasury, personnel, purchasing and other services that the City provides to the Board on an on-going basis. The CASE fee is retroactively effective from July 1, 1998, and was calculated as 3-percent of the Board's total operating budget less budgeted transfers to the capital improvement, renewal and replacement, and other Board funds for the years ended June 30, 2000 and 1999. The CASE fees accrued at June 30, 2000 were paid subsequent to year end.

For the year ending June 30, 2001, the CASE fee increases to 4-percent of the above computation less actual fees billed by the City for specified services. The CASE fees for fiscal years subsequent to 2001 are subject to negotiation between the Board and the City. Either the Board or the City may terminate this agreement at any time with six months prior written notice.

The Board's Charter allows for a CASE fee to the extent that it represents a reasonable charge for services necessary for the Board to perform its duties. Although the Board and management have preliminarily concluded as to the reasonableness of the CASE fee, they intend to conduct a formal study of the cost of the services provided by the City. The Board and management do not believe that the results of this study will have a material adverse effect on the accompanying financial statements.

c. Ewa Villages Water System Facilities Charge

Based upon negotiations with the City, the Board has agreed to deviate from its standard policies regarding a developer's responsibilities to construct the related water system infrastructure for the City's low-income housing development known as Ewa Villages. The size of the development required the City to build a specified water system and convey it to the Board. The City began construction of the water system infrastructure, however, the Board subsequently agreed to complete the unfinished phases of the work.

The Board agreed to negotiate a water system facility charge with the City to consider only the portion of the total infrastructure costs that will benefit the Ewa Villages project. The Board estimated the total cost of the existing and proposed infrastructure as approximately \$28.9 million, of which the City's share is approximately \$7.6 million. Although both the Board and the City agree with this amount, there is currently a dispute between the two parties as to the extent the City satisfied this obligation through costs it incurred in its initial phase of construction.

The Board has recorded a receivable of approximately \$1.3 million related to this water system facility charge to the City. In the opinion of management, the amount recorded net of reserves for resolution of this amount will not have a material adverse affect on the financial statements.

d. Waipio Soccer Park

During October 1998, the Board and the City entered into an agreement to build a non-potable water facility to provide for the irrigation needs of the City's Waipio Soccer Park, the City's Ted Makalena golf course and, if adequate supply exists, the US Navy's surrounding agricultural land. Although the agreement does not require disconnection of the irrigation system from the Board's existing potable water system, the Board intends to obtain a separate agreement to ensure that the potable water that would have been used for the irrigation of these facilities is available for rate-paying customers. The Board's maximum commitment to the City for this project is \$2 million. At June 30, 2000, the Board incurred approximately \$1.2 million of costs, which are reflected as construction work in progress in the accompanying balance sheet.

e. Honouliuli Reclamation Facility

Subsequent to year end, the Board entered into a Water Reclamation Facility Sale Agreement and Assignment of Water Reclamation Facility Agreement (the Sale Agreement) with a third-party contractor and the City for the purchase of a water reclamation plant. The total cost of the acquisition is estimated at \$51.6 million, including the initial purchase price of \$48.1 million for the plant and \$3.5 million for certain components of the distribution system. Of the initial purchase price, \$22 million was paid as of the acquisition date and the remainder is to be paid when the facility meets certain performance standards specified in the Sale Agreement.

In conjunction with the acquisition, the Board also executed a 20-year service contract with the same third-party contractor to provide design, engineering, operations and maintenance services for the facility. The Board is currently renegotiating certain terms of the contract to provide for separate financing of the acquisition through a tax-free bond offering. Although this outcome is not assured, management believes the contract will be renegotiated successfully.

The Board acquired the facility for the opportunities that management believes exist for the sale of reclaimed water as well as the benefits related to the conservation of the fresh water supply. The Board intends to capitalize all costs incurred to place the facility into service, and to account for the facility as a separate business segment. Realization of this asset is dependent upon management's ability to execute its marketing plans and to generate revenues at least to the extent of operating costs and depreciation. The total cost of the facility and its distribution system is considered realizable, however, the carrying value could be reduced in the near term if either rate or consumption estimates are reduced.

6. Employee Benefit Plans

a. Defined Benefit Pension Plan

Substantially all eligible employees of the Board are members of the Employees' Retirement System of the State of Hawaii (System), a cost-sharing multiple-employer public employee retirement plan. The System provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the plan consisted of only a contributory option. Effective July 1, 1984, legislation was enacted to create a new noncontributory option for members of the System. Eligible employees hired for the first time or those returning to service after June 30, 1984 without vested benefit status automatically become participants of the noncontributory retirement option. Members of the System who were in service on June 30, 1984 had the option to elect the new noncontributory retirement option. Benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Required employer contributions to the System are based on actuarially determined rates that should provide sufficient resources to pay member pension benefits when due. The funding method used to calculate the total employer contribution required is the frozen initial liability method and includes amortization of the accrued unfunded liability of pension benefits and post-retirement benefits fixed at \$470 million over a period of twenty-eight years beginning July 1, 1988.

The Board's policy is to fund its required contribution annually. The payroll for employees of the Board covered by the System for the year ended June 30, 2000, 1999 and 1998 was approximately \$28,636,000, \$24,846,000 and \$25,245,000, respectively; the Board's total payroll was approximately \$28,804,000, \$25,119,000 and \$25,957,000, respectively. The contribution requirement for the years ended June 30, 2000, 1999 and 1998 were approximately \$71,700, \$1,560,000 and \$3,248,000, respectively, which represented approximately 0.1, 6.3 and 12.9 percent of the Board's covered payroll for these fiscal years respectively. The Board's contribution requirement for these fiscal years represented approximately 1 percent of the total contribution requirement for all employers.

Act 327 of the 1997 State Legislative Session changed, among other things, the System's funding method from the frozen initial liability method to the entry age normal cost method. Act 151 of the 1998 State Legislative Session effected certain other changes including a change in the salary growth assumption.

Act 100 of the 1999 State Legislative Session required the use of actuarial investment earnings in excess of a ten percent actuarial investment yield to reduce the employer's contribution requirements for the fiscal years ending June 30, 2000 and 2001.

Measurement of assets and actuarial valuations are made for the entire System and are not separately computed for individual participating employers such as the Board. In 1997, the System adopted GASB No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". This Statement requires the reporting of investments at fair value. The following data pertains to the entire system and is provided as of June 30, 1999 from the disclosures contained in the system's CAFR for the year then ended, the most recent report available:

	<u>1999</u>
Pension benefit obligation	\$10,732,767,400
Net assets available for benefits (at fair value)	(9,679,759,504)
	<hr/>
Unfunded pension benefit obligation	\$ 1,053,007,896
	=====

The pension benefit obligation is a standardized measure of the actuarial present value of credited projected pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 1999 CAFR.

b. Early Retirement Incentive

Act 212 of the 1994 regular session of the State legislature authorized an early retirement incentive to state and county employees with at least 25 years of service as of December 31, 1994. Qualifying employees received two additional years of service credits for purposes of calculating their retirement benefits.

Act 216 of the 2000 State Legislative Session lowers the employer contributions to the System by extending the payment schedule for the actuarial present value cost of the early retirement incentive bonus from 5 to 19 years beginning with System payments for the year ended June 30, 2000. The retirement contribution liability related to this program as of June 30, 2000 and 1999 was approximately \$759,000 and \$801,000.

c. Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State of Hawaii Public Employees Health Fund provides certain health care and life insurance benefits, in accordance with State statutes, to all employees who retire from the Board on or after attaining age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory plan and age 55 with at least 5 years of service under the contributory plan. Currently 547 Board retirees and surviving dependents are eligible to receive health care benefits and 432 Board retirees are eligible to receive life insurance benefits. Retirees credited with at least 10 years of service excluding sick leave credit qualify for free medical insurance premiums; however, retirees with less than 10 years must assume a portion of the monthly premiums. All disabled retirees who retired after June 30, 1984, with less than 10 years of service also qualify for free medical insurance premiums. Free life insurance coverage and dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are based upon negotiated collective bargaining agreements and are funded by the Board as accrued. The amounts allocated to the Board for years ended June 30, 2000 and 1999 aggregated approximately \$2,469,000 and \$2,256,000, respectively, and are included as expenses in the accompanying financial statements.

d. Deferred Compensation Plan

All full-time employees are eligible to participate in the City and County of Honolulu's Public Employees' Deferred Compensation Plan (Plan), adopted pursuant to Internal Revenue Code Section 457. The Plan permits eligible employees to defer a portion of their salary until future years. The deferred compensation amounts are not available to employees until termination, retirement, death, or unforeseeable emergency.

The Small Business Job Protection Act of 1996 (the 1996 Act) requires that all plan assets and income be placed in trust, custodial account or annuity contract for the exclusive benefit of the participants and their beneficiaries. In 1999, the City has met the requirements for the 1996 Act for its Plan and in accordance with the criteria set forth in the GASB No. 32, "Accounting and Financial Reporting Code Section 457 Deferred Compensation Plans," the Plan's assets are no longer required to be reported on the Board's balance sheet. Accordingly, the Board has excluded the Plan's assets and liabilities from the financial statements because the Board and City do not have significant administrative involvement in the Plan or perform the investment function for the Plan.

e. Retroactive Pay

In 1996, the City and other governmental agencies entered into negotiations with the United Public Workers Union and the Hawaii Governmental Employees Association for matters related to certain bargaining units that include Board employees. In 1998, these negotiations, which comprised of retroactive pay raises of approximately \$3.2 million, were complete pending funding by the legislature. At the end of the 1998 legislative session, the funding proposal (Act 100) was not approved, therefore, no accrual was made as of June 30, 1998. In the 1999 legislative session, Act 100 was approved and the retroactive pay fully funded. Accordingly, the Board accrued retroactive pay raises and related fringe benefits of approximately \$4.0 million as of June 30, 1999. As of June 30, 2000, all of the required retroactive payments have been made.

f. Collective Bargaining Agreements

The Board's employees are members of several different bargaining units. During 2000, all of the bargaining units' contracts expired. The City, on behalf of the Board, is currently participating in the negotiations with all of the bargaining units.

7. Contributed Capital

The changes in Board's contributions in aid of construction accounts in fiscal years 2000 and 1999 were as follows:

	Contributions in Aid of Construction		
	<u>Government</u>	<u>Other</u>	<u>Total</u>
Balance, June 30, 1998	\$ 94,371,595	\$ 353,443,205	\$ 447,814,800
Customer advances for plant construction	-	4,904,766	4,904,766
Contribution of utility plant in service	11,977,142	9,263,191	21,240,333
Balance, June 30, 1999	<u>106,348,737</u>	<u>367,611,162</u>	<u>473,959,899</u>
Customer advances for plant in construction	-	10,756,228	10,756,228
Contribution of utility plant in service	8,237,107	11,075,330	19,312,437
Balance, June 30, 2000	<u>\$114,585,844</u> =====	<u>\$389,442,720</u> =====	<u>\$504,028,564</u> =====

8. Commitments

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. At June 30, 2000, accumulated sick leave aggregated approximately \$18 million.

Other commitments, primarily for utility plant construction, approximated \$207,983,000 at June 30, 2000.

9. Contingencies

a. Workers' Compensation Self-Insurance Liability

The Board is self-insured for workers' compensation and disability claims below \$300,000 and in excess of \$1,000,000. Such claims are reported to and managed by the City's Workers' Compensation Division (the Division). The Board provides reserves for claims not covered by insurance that in the opinion of the Division will result in probable judgement against the Board. Management believes the final resolution of these claims will not significantly impact the Board's financial position or results of operations.

b. Waiahole Water Rights

The Board and the City were unsuccessful intervenors in a water rights case before the Supreme Court of Hawaii that determined the allocation of waters that flow through the Waiahole Ditch. The Board is not a direct user of the ditch water; however, the resulting decrease in ditch water flow is expected to adversely impact the recharge of the Board's ground water sources and increase the demand on those sources. The potential impact may include significant additional capital and infrastructure costs. The impact of this on future financial results of the Board is not determinable.



c. Safe Drinking Water Act

The Board is subject to the requirements of the Safe Drinking Water Act (the Act) which is administered by the State of Hawaii Department of Health on behalf of the United States Environmental Protection Agency. Management indicated that the Board is in full compliance with the requirements of the Act and is not aware of any matters under the Act that materially affected or are currently affecting the Board's customer service area.

d. Other Legal Matters

The Board is party to various legal proceedings arising in the normal course of business. The outcome of individual matters is not predictable. However, management believes that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on the Board's financial position or results of operations.

10. New Accounting Pronouncements

GASB has issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," which establishes a new financial reporting model for state and local governments. The statement requires the Board to implement the new accounting pronouncement in conjunction with the City's implementation deadlines. The implementation of GASB Statement No. 34 is mandated in three phases based upon a government's total annual revenues of its governmental and enterprise funds in the first fiscal year ending after June 15, 1999. As a government with total annual revenues of \$100 million or more, the City falls under the Phase 1 criteria and is required to implement for the period beginning after June 15, 2001. Additionally for purposes of the retroactive reporting of major networks and subsystems of general infrastructure assets, GASB Statement No. 34 sets the implementation of Phase 1 governments for years beginning after June 15, 2005. The Board is currently evaluating the potential financial statement impact of GASB Statement No. 34.

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Supplemental Schedule of Property, Plant and Equipment  
For the Year Ended June 30, 2000  
(Excluding construction work in progress)

ASSETS

	<u>Balance June 30, 1999</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2000</u>
PROPERTY, excluding land and land rights:				
Source of supply	\$ 31,514,737	\$ 870,210	\$ -	\$ 32,384,947
Pumping	123,081,436	7,991,931	891,063	130,182,304
Water treatment	16,483,939	13,627,762	-	30,111,701
Transmission and distribution	714,947,136	39,931,798	2,885,772	751,993,162
General	46,704,071	3,808,682	865,530	49,647,223
	<u>932,731,319</u>	<u>66,230,383</u>	<u>4,642,365</u>	<u>994,319,337</u>
LAND AND LAND RIGHTS:				
Source of supply	6,148,337	725	-	6,149,062
Pumping	538,294	1,975	-	540,269
Water treatment	65	-	-	65
Transmission and distribution	459,537	13,863	-	473,400
General	7,842,423	-	9,650	7,832,773
	<u>14,988,656</u>	<u>16,563</u>	<u>9,650</u>	<u>14,995,569</u>
	<u>\$ 947,719,975</u>	<u>\$ 66,246,946</u>	<u>\$ 4,652,015</u>	<u>\$1,009,314,906</u>
OBTAINED FROM:				
Operating fund		\$ 36,612,404		
Special expendable fund		10,322,105		
Contributions in aid:				
Government		8,237,107		
Other		11,075,330		
		<u>\$ 66,246,946</u>		

See report of independent accountants.

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Supplemental Schedule of Property, Plant and Equipment  
For the Year Ended June 30, 2000  
(Excluding construction work in progress)

	<u>ACCUMULATED DEPRECIATION</u>			
	<u>Balance June 30, 1999</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2000</u>
PROPERTY, excluding land and land rights:				
Source of supply	\$ 15,648,378	\$ 982,000	\$ -	\$ 16,630,378
Pumping	53,475,547	4,735,438	891,064	57,319,921
Water treatment	6,752,811	783,225	-	7,536,036
Transmission and distribution	244,998,200	16,207,449	2,885,773	258,319,876
General	19,411,275	2,823,804	865,532	21,369,547
	<u>\$ 340,286,211</u>	<u>\$ 25,531,916</u>	<u>\$ 4,642,369</u>	<u>\$ 361,175,758</u>
	=====	=====	=====	=====
Less amounts charged to jobbing contract work		1,088,760		
DEPRECIATION EXPENSE		<u>\$ 24,443,156</u>		
		=====		

See report of independent accountants.

**BOARD OF WATER SUPPLY,  
CITY AND COUNTY OF HONOLULU**

Supplemental Schedule of Long-Term Debt  
June 30, 2000

		<u>Last Installment</u>	<u>Interest Rate</u>	<u>Bonds Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates(1)</u>	<u>Outstanding June 30, 2000</u>	<u>Payable Within One Year</u>
General Obligation Water Bonds:								
Series	1976	2001	5.000	09-01-76	09-01-99	09-01-86	\$ 730,000	\$ 365,000
Series	1978	2003	4.750	04-01-78	04-01-01	04-01-88	1,560,000	520,000
Series	1992	2000	9.500	12-01-92	12-01-00	(2)	1,300,000	1,300,000
	1992	2001	5.250	12-01-92	12-01-01	(2)	1,435,000	-
	1992	2002	5.375	12-01-92	12-01-02	(2)	1,510,000	-
	1992	2003	5.400	12-01-92	12-01-03	(2)	1,590,000	-
	1992	2004	5.500	12-01-92	12-01-04	(2)	1,675,000	-
	1992	2005	5.600	12-01-92	12-01-05	(2)	1,765,000	-
	1992	2006	5.700	12-01-92	12-01-06	(2)	1,865,000	-
	1992	2007	5.800	12-01-92	12-01-07	(2)	1,975,000	-
	1992	2008	5.900	12-01-92	12-01-08	(2)	2,085,000	-
	1992	2015	6.000	12-01-92	12-01-09	(2)	<u>18,560,000</u>	-
							<u>36,050,000</u>	<u>2,185,000</u>
Water System Revenue Bonds:								
Series	1996	2000	4.500	03-01-96	07-01-00	(2)	425,000	425,000
	1996	2001	4.600	03-01-96	07-01-01	(2)	445,000	-
	1996	2002	4.750	03-01-96	07-01-02	(2)	465,000	-
	1996	2003	4.875	03-01-96	07-01-03	(2)	490,000	-
	1996	2005	5.000	03-01-96	07-01-04	(2)	1,045,000	-
	1996	2006	5.125	03-01-96	07-01-06	(2)	565,000	-
	1996	2007	5.250	03-01-96	07-01-07	07-01-06	595,000	-
	1996	2009	5.400	03-01-96	07-01-08	07-01-06	1,285,000	-
	1996	2011	5.500	03-01-96	07-01-10	07-01-06	1,425,000	-
	1996	2021	5.800	03-01-96	07-01-12	07-01-06	<u>10,080,000</u>	-
							<u>16,820,000</u>	<u>425,000</u>
Total Long-Term Debt							<u>\$52,870,000</u>	<u>\$2,610,000</u>

- (1) Call dates indicated are optional.  
(2) Noncallable.

See report of independent accountants.