

**Board of Water Supply  
City and County of Honolulu**  
**Financial Statements and Supplementary Information**  
**June 30, 2014 and 2013**

# Board of Water Supply City and County of Honolulu Index

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# **Introduction**

# **Board of Water Supply**

## **City and County of Honolulu**

### **Introduction**

#### **June 30, 2014 and 2013**

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The Board of Water Supply of the City and County of Honolulu (the “BWS”) is pleased to present its Annual Financial Report for the fiscal year 2014. This introduction provides an overview of the mission, organization, and operations of the BWS. The following management’s discussion and analysis is intended to provide the reader with an easily understandable analysis of the BWS’s financial performance and all aspects of its financial position. Financial statements presenting the financial position and results of operations of the BWS is in conformity with accounting principles generally accepted in the United States of America, accompanied by the independent auditors’ report.

#### **Organization and Business**

The BWS is a semi-autonomous agency of the City and County of Honolulu (the “City”). Pursuant to the City Revised Charter, the BWS has full control of all municipal water systems of the City, together with all materials, supplies and equipment, and all real and personal property used or useful in connection with such water systems. The BWS was established in 1929.

The Mayor of the City appoints five of the seven members of the Board of Directors. The other two are ex-officio members, the Director and Chief Engineer of the Department of Facility Maintenance, City and County of Honolulu, and the Director of the Department of Transportation of the State of Hawaii.

The BWS consists of 15 Divisions and Support Offices – Water Quality Division, Capital Projects, Communications, Customer Care, Executive Support Office, Finance, Human Resources, Information Technology, Legal, Field Operations, Water System Operations, Water Resources, Land, Security, and the Office of the Manager and Chief Engineer. All are under the direction of the Manager and Chief Engineer (“Manager”) who is appointed by the Board of Directors, and the Deputy Manager and Chief Engineer.

The Board of Directors has the power to set and adjust rates and charges for the furnishing of water services so that the revenues derived shall be sufficient to make the water system self-supporting. Rates and charges are determined on the basis of a recommendation by the Manager, subject to a public hearing to receive public testimony regarding any proposed rate increase, and final approval by the Board of Directors.

The BWS receives no revenues from taxation and depends solely upon revenues derived from its rates and charges to pay for its operations and debt service. The BWS may also receive funds from the federal, state or county governments for capital improvement and other projects.

The BWS services 167,931 accounts and a residential population of 983,429. The service area covers the island of Oahu and is 597.6 square miles. The customer base includes the residential population, businesses and industries, and agriculture. Of the total accounts, 155,871 are residential (92.8%), representing 60.4% of the total amount received from water sales in fiscal year 2014; 11,149 are commercial and industrial (6.7%), representing 38.7% of the total amount received from water sales in fiscal year 2014; and 911 are agricultural (0.5%).

The BWS provides potable quality water at reasonable rates, while managing the long-term viability of Oahu’s water resources and protecting the environment. In fiscal year 2014, the BWS provided approximately 139.2 million gallons per day (“mgd”) of potable water and approximately 10.8 mgd of recycled water for irrigation of various golf courses, landscaped areas in Ewa, and for industrial processing in Campbell Industrial Park.

# Board of Water Supply

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#### Mission

The mission of the BWS is to provide a safe, dependable and affordable water supply to its customers, now and into the future.

Three main strategic objectives emanate from this mission: resource, organizational and economic sustainability.

- **Resource sustainability** (Safe) ensures that natural groundwater supplies are protected and managed efficiently.
- **Organizational sustainability** (Dependable) calls for a sound, well-structured, efficient organization with the tools and skills necessary to provide exceptional value to the BWS's customers and the community.
- **Economic sustainability** (Affordable) calls for a sound financial strategy to support the BWS's operating and capital needs, while keeping water rates affordable.

#### Looking Ahead

BWS employees continue to concentrate their efforts in support of the BWS's mission with a focus on the following strategic objectives:

##### 1. **Resource Sustainability (Safe)**

To ensure safe water quality, the BWS protects, preserves and collaborates to ensure the safety and quality of Oahu's fresh water resources. To ensure adequate water quantity, the BWS safeguards Oahu's groundwater supplies and watersheds through adaptive and integrated strategies. This strategic objective ensures that natural groundwater and surface water supplies are protected from contamination and degradation and are managed efficiently for long-term sustainability. Efforts focus on protecting the natural environment, important watersheds, and water sources by monitoring Oahu's rainfall and aquifer water levels and salinity, and taking appropriate precautions to ensure the sustainability of the island's potable water supplies in a climate change future of variable and intense drought and storm events. The BWS's adaptive plans call for advanced conservation and diversified strategies and projects in potable groundwater, and alternative water supplies, including brackish, recycled, and desalinated water to meet future demands.

The BWS's comprehensive water conservation program continues to foster effective water management policies and practices that reduce per capita use of potable water to encourage sustainable behaviors to all users on Oahu. Resource and demand-side management, alternative water supplies, water system optimization, consumer education, and collaboration with other utilities on industry best practices, combine to form a holistic approach to this growing and expanding program.

- In fiscal year 2014, the BWS placed Honouliuli 228 Reservoir #3 in service, improving reliability in the Ewa Beach, Kapolei and Barber's Point areas by providing an additional six million gallons of storage capacity.

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## **Introduction June 30, 2014 and 2013**

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- The BWS conducted 33,775 chemical tests and 9,118 microbiological tests on samples collected from its water sources, distribution system, and treatment facilities to ensure all water served is safe to drink.
- In June 2014, the BWS completed its annual production and delivery of the Consumer Confidence Report (“CCR”), also known as the Water Quality Report, to all BWS customers. The report provides information on the quality of the water delivered from the BWS system and was mailed to all customers on record. The report is also available at [www.boardofwatersupply.com](http://www.boardofwatersupply.com). The BWS also placed ads in Honolulu newspapers, including various ethnic language publications, to inform community members of the distribution.
- BWS staff held a record 26 outdoor water conservation classes at the Halawa Xeriscape Garden. These classes shared various techniques on how to reduce water use through efficient landscaping.
- The BWS held the 25<sup>th</sup> annual Halawa Xeriscape Garden Open House and Unthirsty Plant Sale. The event was attended by an estimated 2,000 people who were eager to learn how to conserve water outdoors and save money on their combined water and wastewater bills.
- More than 1,300 posters and 200 poems were received from 57 schools on Oahu for the 2014 Water Conservation Week Poster and Poetry Contests. The winning posters and poems are featured in the BWS 2014 Water Conservation Calendar. The BWS formed public-private partnerships to offset calendar printing costs.

## **2. Organizational Sustainability (Dependable)**

Maintaining a strong, flexible organization that is able to resolve economic, regulatory and service challenges requires that the BWS use aggressive as well as time-tested strategies to meet the second BWS objective of organizational sustainability.

- BWS Customer Care staff handled approximately 156,385 customer calls, 5,557 online requests, 7,462 walk-in customers, and 569 other requests from customers.
- Due to the high volume of calls and added requirements of CC&B, the Call Center staff was increased from 10 to 25 Customer Service Representatives. Also, an operator pool was created to handle overflow calls from customers. The increase in staffing resulted in decreasing the call abandon rate from 54.1 percent in July 2013 to 10.6 percent in June 2014.
- BWS Service Engineering addressed 6,865 walk-in customers, conducted 761 e-plan reviews, and reviewed 155 construction plans.
- With the introduction of online bill payment through BWS ePay, the volume of mail-in bill payments have decreased from more than 60 percent to approximately 48 percent.
- In addition to VISA and MasterCard, the BWS added Discover Card and JCB cards for customers to make payments.

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- In response to Executive Order 13636 by the Federal Government, the BWS has increased its focus on improving critical infrastructure security and resilience. The completion of a Cybersecurity Program to address the Executive Order is expected by the end of fiscal year 2015.
- The BWS continually works with the City Department of Emergency Management and Hawaii State Civil Defense to insure it has the plans and procedures in place to respond effectively to emergency situations such as a tropical cyclone, an island wide power outage, radiological incident, tsunami, or other major threats. The Executive Support Officer manages the BWS Emergency Response Plan to insure the department is prepared to respond in the event of a natural or man-made disaster.

### 3. Economic Sustainability (Affordable)

The third strategic objective calls for a sound financial strategy to support the BWS's operating and capital needs. While operation and construction costs steadily increase, the BWS continued to focus its efforts on improving its core services, by addressing aging infrastructure and ensuring the reliability and quality of water provided to all customers on Oahu.

- The BWS's system involves capturing, treating, storing and moving water across the island. The BWS is in its second year of a three-year comprehensive Water Master Plan. The Water Master Plan is a comprehensive program that evaluates the entire water system, identifies necessary improvements, and balances the needs with costs to serve our customers now and through the next 30 years. These proactive measures enable us to provide safe, dependable and affordable water to the people of Oahu.
- In fiscal year 2014, the BWS's employees responded to 294 main breaks or about 14 breaks per 100 miles of pipeline. According to the American Water Works Association, water utilities nationwide should strive for a limit of roughly 25-30 breaks per 100 miles of pipeline.
- More than \$32.8 million in construction contracts and more than \$6.5 million in professional services contracts were awarded as of June 30, 2014. The major programs include the following:
  - **Water Main Replacement Program:** More than \$19 million in water main construction projects were awarded to improve the water systems in Aina Haina, Alewa, Ewa Beach, Kalihi, Kaimuki, Manoa, Punchbowl, and Wilhemina Rise areas. Additionally, design contracts were awarded for water main replacements in Hawaii Kai, Manoa, Pacific Heights, Pearl Ridge, Wahiawa, Waikiki, and Wilhemina Rise; and also for fire hydrant installations in Aiea and Kaimuki.
  - **Water Facility Improvement Program:** During this fiscal year, new construction contracts were awarded to repair, renovate, repaint and/or reroof the Diamond Head Line Booster, Kaonohi 277 Reservoir, Makiki 180 Reservoir, Moanalua 405 Reservoirs No.1 and No. 2, Niu Valley Booster, Wahiawa 1075 Reservoir, and Waimalu Wells I. New design contracts were awarded for facility improvements at Nuuanu 822 Reservoir, Pearl City 865 Reservoir, Waahila 180 Reservoir, Waiiau 285 Reservoir, Waiiau 550 Reservoir, and Waimalu 217 Reservoir, and for installation of security fencing at various locations.

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- **Mechanical and Electrical Renovation Projects:** Construction contracts were awarded for the renovation of the mechanical and/or electrical systems at the Aiea Booster No. 3, Aina Koa Booster IV, Aina Koa Booster V, Haiku Well, Halawa Wells, Kaamilo Booster, Kamiloiki Booster, Kuliouou Well, Makaha Wells V, Newtown Wells, Nuuanu Booster II, Punaluu Wells II, Waialeale Wells, Wailupe Well I, Waiiau Wells and Booster, and Wilder Wells. Design contracts were awarded for renovation work at Beretania Pump Station, Kuliouou Wells, Manoa Well II and Mililani Wells IV.
- The BWS continued to refine the new Customer Care & Billing System (“CC&B”) that went live in January 2013 with the simultaneous conversion to monthly billing. The conversion of the new system presented a number of challenges which have been addressed by continuing to improve and expand ways to decrease estimated bill incidence and increase customer service responsiveness. During fiscal year 2014, the number of estimated bills was reduced to less than two percent.
- In an effort to further institute best industry practices, the BWS began performing deferred maintenance on the Automatic Meter Reading system, upgrading the software to enhance its reliability, and started a study of meter reading technology and practices.
- BWS staff responded to 987 complaints regarding possible water line leaks, 6,505 requests by various contractors to verify the location of waterlines to prevent damage to BWS infrastructure, and 24,309 field activities to address customer billing concerns.
- The BWS completed an upgrade of its Financial Management System to bring it to a supportable version. This project ensured the continued viability of the Financial Management System, and allowed for the collection of functional enhancement requirements to be used in an enhancement project programmed for the 2016 budget.
- The BWS is currently upgrading its Computerized Maintenance Management System to bring it to a supportable version. This upgrade will also provide a new mobile solution to be used in the field, and is anticipated to be completed in fiscal year 2016. It will also be leveraged for use by Water Systems Operations in the near future.
- The BWS’s nationally recognized Geographic Information System (“GIS”) database and applications continue to be upgraded for best in class industry functionality and performance. This system gives users access to GIS layers and updated imagery, and integrates map service sharing with other city departments. Enhancements for mobile data gathering and data sharing have been piloted with promising results.
- The BWS Hydraulic Model Program, in close collaboration with the Water Master Plan Project, has been working to complete the calibration and updates of the BWS water systems.
- The BWS Wireless Network Project continues deployment of site connectivity to provide high speed backbone links. With a majority of our sites connected, an ongoing Preventive Maintenance Program for the network, video surveillance and sensors is currently being planned, and will be formally implemented in fiscal year 2015.
- The BWS conducted 33,775 chemical tests and 9,118 microbiological tests on samples collected from its water sources, distribution system, and treatment facilities to ensure all water served is safe to drink.

## Report of Independent Auditors

To the Board of Directors  
Board of Water Supply  
City and County of Honolulu

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Board of Water Supply (the "BWS"), a component unit of the City and County of Honolulu (the "City"), as of June 30, 2014 and 2013, and the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BWS as of June 30, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 2, the financial statements referred to above include only the financial activities of the BWS, and are not intended to present fairly the financial position, changes in its financial position, or cash flows of the City, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 and schedule of funding progress on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB") who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the BWS. The introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

**Change in Accounting Principle**

As discussed in Note 15 to the financial statements, in 2014 the BWS adopted the new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 on our consideration of the BWS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BWS's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii  
October 27, 2014

# **Management's Discussion and Analysis**

# **Board of Water Supply City and County of Honolulu Management's Discussion and Analysis June 30, 2014 and 2013**

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This section presents the management's discussion and analysis of the BWS's financial condition and activities for the fiscal year ended June 30, 2014. This information should be read in conjunction with the financial statements.

## **Financial Highlights**

The BWS implemented the third of five scheduled rate increases in July 2013 to meet the rising costs of delivering water to customers and to continue its infrastructure repair and replacement programs. Water rates increased by 9.65%, which equates to more than \$4 of monthly water charges for an average single-family residential customer effective July 1, 2013.

The BWS still maintains a relatively strong financial performance with a manageable capital program. Meanwhile, management continues to carefully evaluate the BWS's finances to ensure optimum performance. In addition to meeting all debt covenants, outstanding debt and cash reserves were kept at levels appropriate for maintaining favorable bond ratings. Key financial highlights are listed below:

- Net position increased \$20.5 million in fiscal year 2014 compared to the \$19.9 million increase in fiscal year 2013.
- Total assets were \$1.4 billion, which exceeded liabilities by \$1.1 billion at June 30, 2014 and 2013.
- The BWS's unrestricted current assets at June 30, 2014 were 3.1 times its related current liabilities compared to 3.3 times at June 30, 2013.
- The BWS's debt to equity ratio was 28.7% and 29.9% at June 30, 2014 and 2013, respectively, indicating the continuance of capacity to issue additional debt.

## **Overview of Financial Report**

The BWS is a semi-autonomous agency of the City. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

Management's discussion and analysis ("MD&A") represents management's analysis and comments on the BWS's financial condition and performance. Summary financial data, key financial and operational indicators used in the BWS's annual report, budget, bond resolutions, and other management tools were used for this analysis.

The basic financial statements include statements of net position, statements of revenues, expenses and change in net position, statements of cash flows, and notes to the financial statements. The statements of net position present the resources and obligations of the BWS at June 30, 2014 and 2013. The statements of revenues, expenses and change in net position presents the changes in net position for the fiscal years then ended, and the resultant ending net position balances.

The statements of cash flows present changes in cash and cash equivalents (short-term investments with original maturities of three months or less from the date of acquisition), resulting from operating, investing, capital and related financing activities, and non-capital financing activities.

The notes to the financial statements provide required disclosures and other information necessary for the fair presentation of the financial statements. The notes detail information about the BWS's significant accounting policies, significant account balances, related party transactions, employee benefit plans,

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June 30, 2014 and 2013**

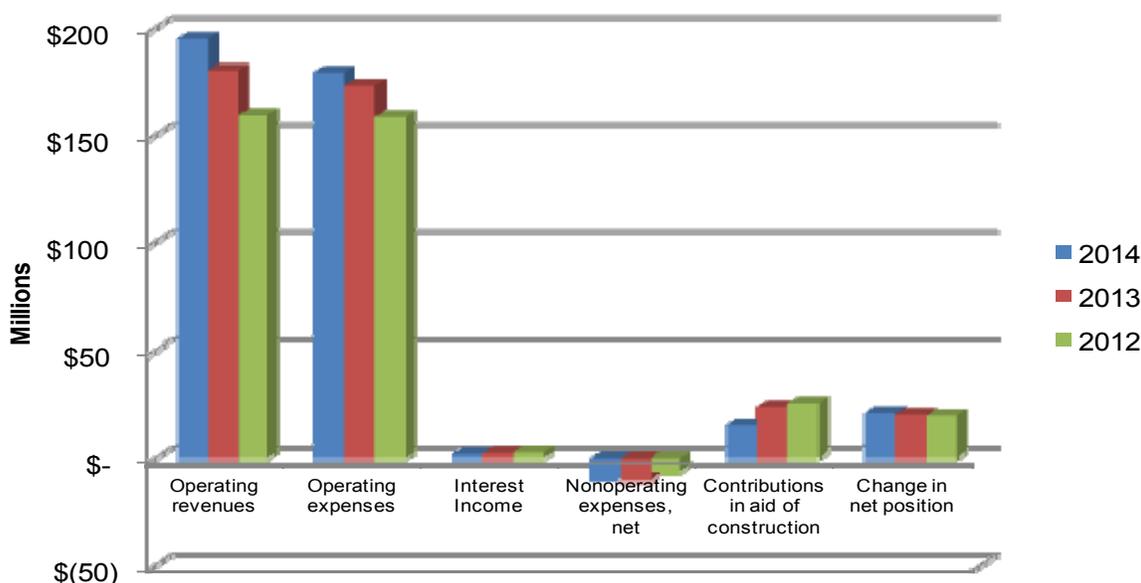
commitments, contingencies, and other significant events. Required supplementary information on post-employment benefits other than pensions and supplementary information for outstanding bonds and net revenue requirements are also included.

**Results of Operations**

**Condensed Statements of Revenues, Expenses and Change in Net Position**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(in thousands)</b>		
Operating revenues	\$ 194,943	\$ 180,505	\$ 159,508
Operating expenses			
Administrative and general	48,589	43,409	39,392
Depreciation	45,941	41,775	42,376
Power and pumping	35,578	39,248	33,202
Other operating expenses	49,472	49,060	43,754
Total operating expenses	<u>179,580</u>	<u>173,492</u>	<u>158,724</u>
Operating income	<u>15,363</u>	<u>7,013</u>	<u>784</u>
Nonoperating revenues (expenses)			
Interest income	2,149	2,529	2,903
Others	(11,853)	(13,196)	(9,499)
Total nonoperating expenses	<u>(9,704)</u>	<u>(10,667)</u>	<u>(6,596)</u>
Contributions in aid of construction	<u>14,817</u>	<u>23,527</u>	<u>25,198</u>
Change in net position	<u>\$ 20,476</u>	<u>\$ 19,873</u>	<u>\$ 19,386</u>

**Statements of Revenues, Expenses and Change in Net Position**



# Board of Water Supply

## City and County of Honolulu

### Management's Discussion and Analysis

#### June 30, 2014 and 2013

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The increase in net position for the year ended June 30, 2014 was \$20.5 million, compared to an increase of \$19.9 million for the year ended June 30, 2013.

Operating revenues for the year ended June 30, 2014 were \$194.9 million, an increase of \$14.4 million or 8.0% from the year ended June 30, 2013 revenues, due to water rate increases that were implemented on July 1, 2013. Operating revenues for the year ended June 30, 2013 were \$180.5 million, an increase of \$21.0 million or 13.2% from the year ended June 30, 2012 revenues, due to water rate increases that were implemented on July 1, 2012.

Total operating expenses increased by \$6.1 million and \$14.8 million in fiscal years 2014 and 2013, respectively. Factors contributing to this change are explained below:

- Administrative and general expenses increased by \$5.2 million in fiscal year 2014, mainly due to an increase in salaries, retirement health fund benefits and other contractual services. In fiscal year 2013, administrative and general expenses increased by \$4.0 million, mainly due to an increase in project costs expensed and other contractual services.
- Power and pumping expenses decreased \$3.7 million during fiscal year 2014. This was primarily due to a decrease in electricity costs of \$3.8 million and an increase in the purchase of other materials and supplies. Power and pumping expenses increased \$6.0 million during fiscal year 2013. This was primarily due to an increase in electricity costs of \$4.6 million and an increase in the repair and maintenance of equipment.
- Other operating expenses increased slightly in fiscal year 2014 by \$0.4 million. Other operating expenses increased by \$5.3 million during fiscal year 2013, due to an increase in other contractual services for transmission expenditures to replace automated meter reading batteries. Maintenance expenses increased mainly due to an increase in project costs expensed for ocean cooling, pumping station, transmission, and water treatment maintenance expenditures.
- For the year ended June 30, 2014, non-operating expenses decreased by \$1.0 million due primarily to a net increase in fair value on investments. Non-operating expenses increased by \$4.1 million for the year ended June 30, 2013, due primarily to a decrease in interest expenses that were capitalized.
- Contributions in aid of construction result from water system facilities charges that are levied against all new developments and residential properties requiring water from the BWS's systems, except those developments that have paid for and installed a complete water system, including sources, transmission, and daily storage facilities. In addition, contributions of capital assets from governmental agencies, developers and customers are recorded as contributions in aid of construction at their cost. The BWS realized contributions in aid of construction of \$14.8 million in fiscal year 2014 compared to \$23.5 million in fiscal year 2013. The decrease in contributions in aid of \$8.7 million was due to a decrease in projects completed by governmental funds of \$8.2 million, a decrease in the Water Service Facilities Charge revenue ("WSFC") of \$1.5 million offset by an increase in private development contributions of \$1.0 million. During the year ended June 30, 2014, the major developments completed were the La Hiki Subdivision, Ocean Pointe Area IVC and the East Kapolei II Development.

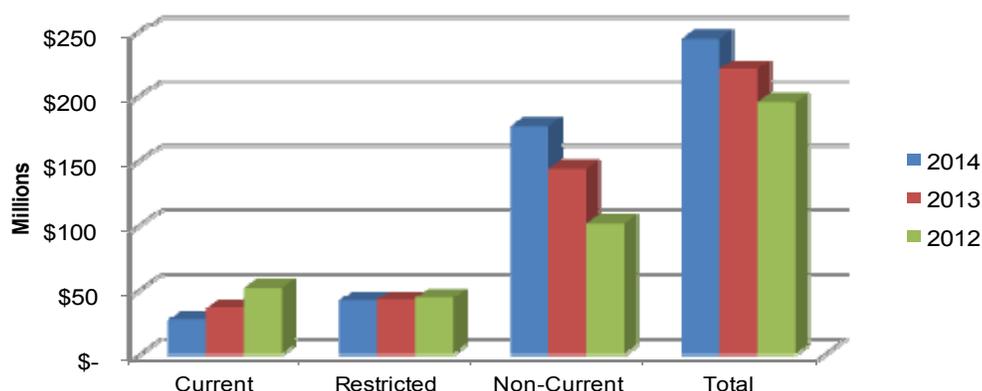
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**Financial Condition**

**Condensed Statements of Net Position**

	2014	2013 (in thousands) (restated)	2012 (restated)	% Change
Current assets				
Cash and cash equivalents	\$ 14,892	\$ 20,404	\$ 14,354	-27.0%
Investments	10,756	14,908	36,653	-27.9%
Other current assets	28,690	27,166	27,269	5.6%
Restricted assets				
Cash and cash equivalents	12,623	15,197	15,682	-16.9%
Investments	28,775	26,686	27,681	7.8%
Due from broker	-	1,330	-	-100.0%
Investments	176,985	143,688	100,659	23.2%
Capital assets, net	1,120,478	1,138,464	1,146,384	-1.6%
Other postemployment benefits asset	7,041	-	-	100.0%
Other assets	480	509	630	-5.7%
Total assets	<u>1,400,720</u>	<u>1,388,352</u>	<u>1,369,312</u>	<u>0.9%</u>
Deferred outflows of resources				
Deferred loss on refunding	8,760	9,299	9,837	-5.8%
Total deferred outflows of resources	<u>8,760</u>	<u>9,299</u>	<u>9,837</u>	<u>-5.8%</u>
Total assets and deferred outflows of resources	<u>\$ 1,409,480</u>	<u>\$ 1,397,651</u>	<u>\$ 1,379,149</u>	<u>0.8%</u>
Current liabilities, payable from current assets	\$ 17,629	\$ 19,065	\$ 10,326	-7.5%
Other liabilities and payables from restricted assets	48,586	47,107	48,860	3.1%
Bonds payable, noncurrent	275,659	284,349	292,707	-3.1%
Total liabilities	<u>341,874</u>	<u>350,521</u>	<u>351,893</u>	<u>-2.5%</u>
Net position				
Invested in capital assets, net of related debt	832,296	843,770	842,391	-1.4%
Restricted for capital activity and debt service	22,492	26,635	26,410	-15.6%
Unrestricted	212,818	176,725	158,455	20.4%
Total net position	<u>1,067,606</u>	<u>1,047,130</u>	<u>1,027,256</u>	<u>2.0%</u>
Total liabilities and net position	<u>\$ 1,409,480</u>	<u>\$ 1,397,651</u>	<u>\$ 1,379,149</u>	<u>0.8%</u>

**Cash and Investments**



**Board of Water Supply  
City and County of Honolulu  
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June 30, 2014 and 2013**

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The BWS's unrestricted current assets were 3.1, 3.3 and 7.6 times its related current liabilities, payable from current assets, as of June 30, 2014, 2013 and 2012, respectively. The ratio decrease at June 30, 2014 was due to purchase of long-term investments.

The ratio decrease at June 30, 2013 was due to the \$21.7 million decrease in unrestricted current investments as the BWS's investment portfolio mix shifted to investment holdings with maturity dates that exceeded one year. The change in the investment mix also resulted in the \$43.0 million increase in the BWS's unrestricted noncurrent investments.

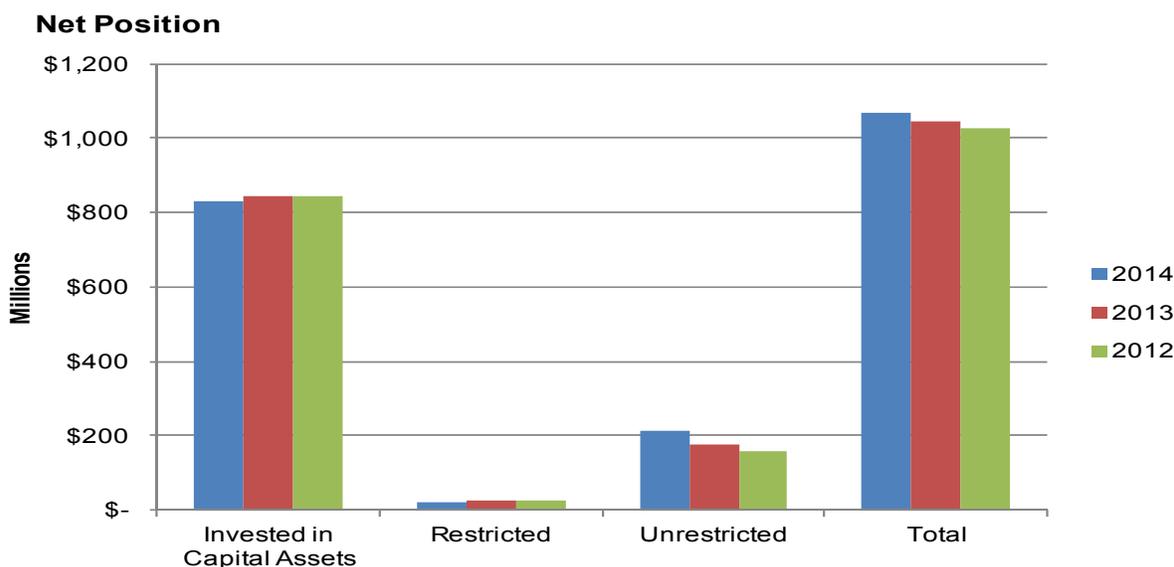
As of June 30, 2014 and 2013, capital assets, net decreased by \$18.0 million and \$7.9 million, respectively. The decreases in fiscal year 2014 and 2013 were due to construction work in progress charge-offs and depreciation charges exceeding acquisitions.

As of June 30, 2014, current liabilities payable from current assets decreased by \$1.4 million or 7.5%. This decrease is primarily due to the timing of payments on the BWS's trade accounts payable.

Other liabilities and payables from restricted assets increased by \$1.5 million during fiscal year 2014. The increase is primarily due to the timing of payments on the BWS's contracts payable account.

The BWS's noncurrent bonds payable decreased by \$8.7 million and \$8.4 million as of June 30, 2014 and 2013, respectively. These decreases represent the current bonds payable due within one year as of June 30, 2014 and 2013.

Net position increased by \$20.5 million and \$19.9 million as of June 30, 2014 and 2013, respectively. The increases were primarily due to an increase in operating revenue.



# **Board of Water Supply City and County of Honolulu Management's Discussion and Analysis June 30, 2014 and 2013**

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## **Capital Assets and Long-Term Debt**

During fiscal years 2014 and 2013, the BWS capitalized \$82.3 million and \$70.6 million, respectively, to its utility plant in service. Major assets added in fiscal year 2014 were Kapiolani Boulevard Water and Sewer Improvements, \$15.5 million; Ewa Shaft Renovation, \$12.2 million; Honouliuli 228 Reservoir No. 3, \$11.7 million; Nanakuli 242 Reservoir, \$9.3 million; Wireless Communication System, \$6.3 million; Beretania Public Service Building Air Conditioning System Improvements, \$5.2 million; Ward Avenue 12-inch and 8-inch Mains, \$2.7 million; and Mapunapuna Water System Improvements, Part II, \$2.1 million.

The BWS issues long-term bonds to finance part of its capital improvement program. The BWS's debt to equity ratio has remained fairly constant at 28.7%, 29.9% and 31.5% for fiscal years 2014, 2013 and 2012, respectively.

All outstanding debt has been assigned underlying ratings of Aa2 from Moody's Investors Service and AA+ from Fitch Ratings.

## **Rate Covenant**

The BWS is required under its bond indenture, among other things, to fix, charge and collect such rates and other charges in each fiscal year to meet the net revenue requirement for such fiscal year. The net revenue requirement is the greater of 1) the sum of the aggregate debt service and all deposits required by bond resolution to be made, or 2) 1.20 times the aggregate debt service. The BWS met the net revenue requirements for the fiscal years ended June 30, 2014 and 2013.

## **Currently Known Facts, Decisions or Conditions**

Effective July 1, 2014, the BWS increased its water rates by approximately 9.65%. One additional annual water rate increase has been approved.

## **Request for Information**

This financial report is designed to provide a general overview of the BWS's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Water Supply, City and County of Honolulu, 630 S. Beretania Street, Honolulu, Hawaii 96843.

# **Financial Statements**

**Board of Water Supply  
City and County of Honolulu  
Statements of Net Position  
June 30, 2014 and 2013**

	<b>2014</b>	<b>2013 (restated)</b>
<b>Assets</b>		
Currents assets		
Cash and cash equivalents	\$ 14,892,121	\$ 20,404,063
Investments	10,756,252	14,907,797
Interest receivable	550,505	550,550
Customer receivables		
Billed, less allowance for uncollectible accounts of \$2,304,718 and \$1,993,416 in 2014 and 2013, respectively	11,419,964	6,462,403
Unbilled	9,143,735	11,017,915
Other receivables, less allowance for uncollectible accounts of \$510,868 in 2014 and 2013	1,902,199	2,494,096
Materials and supplies	5,288,572	6,460,259
Prepaid expenses	384,572	181,093
Total current assets	<u>54,337,920</u>	<u>62,478,176</u>
Restricted assets		
Cash and cash equivalents	12,623,052	15,197,057
Investments	28,774,663	26,685,751
Due from broker	-	1,330,000
Total restricted assets	<u>41,397,715</u>	<u>43,212,808</u>
Investments	<u>176,985,326</u>	<u>143,688,323</u>
Capital assets		
Infrastructure	1,425,668,553	1,365,850,204
Building and improvements	157,657,127	152,197,864
Equipment and machinery	282,710,681	266,854,387
	<u>1,866,036,361</u>	<u>1,784,902,455</u>
Less: Accumulated depreciation	855,482,565	808,738,703
	<u>1,010,553,796</u>	<u>976,163,752</u>
Land	32,373,064	32,373,064
Construction work in progress	77,550,957	129,927,360
Net capital assets	<u>1,120,477,817</u>	<u>1,138,464,176</u>
Other postemployment benefits asset	7,041,217	-
Other assets	479,500	508,651
Total other assets	<u>7,520,717</u>	<u>508,651</u>
Total assets	<u>1,400,719,495</u>	<u>1,388,352,134</u>
<b>Deferred outflows of resources</b>		
Deferred loss on refunding	8,759,961	9,298,608
Total deferred outflows of resources	<u>8,759,961</u>	<u>9,298,608</u>
Total assets and deferred outflows of resources	<u>\$ 1,409,479,456</u>	<u>\$ 1,397,650,742</u>

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

**Board of Water Supply  
City and County of Honolulu  
Statements of Net Position  
June 30, 2014 and 2013**

	<b>2014</b>	<b>2013 (restated)</b>
<b>Liabilities</b>		
Current liabilities		
Payable from current assets		
Accounts payable	\$ 8,901,932	\$ 10,790,929
Contracts payable, including retainages	5,187,199	3,871,504
Accrued vacation, current	2,666,607	1,464,290
Other	873,142	2,938,049
Total payable from current assets	<u>17,628,880</u>	<u>19,064,772</u>
Payable from restricted assets		
Contracts payable, including retainages	2,914,254	937,401
Accrued interest payable	6,596,473	6,750,422
Bonds payable, current	7,660,000	7,335,000
Notes payable, current	1,735,067	1,554,435
Total payable from restricted assets	<u>18,905,794</u>	<u>16,577,258</u>
Total current liabilities	<u>36,534,674</u>	<u>35,642,030</u>
Other liabilities		
Customer advances	929,732	894,125
Accrued vacation, noncurrent	4,004,681	5,042,067
Accrued workers' compensation	2,051,526	2,305,822
Other postemployment benefits	-	460,450
Notes payable, noncurrent	21,283,365	19,643,962
Accrued arbitrage rebate	65,888	48,873
Other	1,344,987	2,134,881
Total other liabilities	<u>29,680,179</u>	<u>30,530,180</u>
Bonds payable, noncurrent	<u>275,659,041</u>	<u>284,349,001</u>
Total liabilities	<u>341,873,894</u>	<u>350,521,211</u>
Commitments and contingencies		
<b>Net Position</b>		
Invested in capital assets – net of related debt	832,295,372	843,769,821
Restricted for capital activity and debt service	22,491,921	26,635,550
Unrestricted	212,818,269	176,724,160
Total net position	<u>1,067,605,562</u>	<u>1,047,129,531</u>
Total liabilities and net position	<u>\$ 1,409,479,456</u>	<u>\$ 1,397,650,742</u>

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

**Board of Water Supply  
City and County of Honolulu  
Statements of Revenues, Expenses and Change in Net Position  
Years Ended June 30, 2014 and 2013**

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	<b>2014</b>	<b>2013</b>
<b>Operating revenues</b>		
Water sales	\$ 191,593,726	\$ 177,316,132
Other, principally contract and service fees	<u>3,348,996</u>	<u>3,189,204</u>
Total operating revenues	194,942,722	180,505,336
<b>Operating expenses</b>		
Administrative and general	48,589,194	43,408,706
Depreciation	45,941,002	41,774,826
Power and pumping	35,577,725	39,248,278
Transmission and distribution	16,164,213	18,245,127
Maintenance	14,307,033	18,156,287
Customers' accounting and collection	9,790,050	4,408,308
Water reclamation	5,846,107	4,908,661
Central administrative services expense fees	3,300,000	3,300,000
Source of supply	<u>64,064</u>	<u>41,265</u>
Total operating expenses	<u>179,579,388</u>	<u>173,491,458</u>
Operating income	<u>15,363,334</u>	<u>7,013,878</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	2,148,814	2,528,333
Interest expense, net of interest capitalized and amortization of bond premiums of \$1,276,415 and \$1,415,891 in 2014 and 2013, respectively	(11,698,335)	(11,865,437)
Loss from disposal of capital assets	(394,052)	(254,503)
Realized and unrealized losses on investments	(188,266)	(2,414,961)
Other	<u>427,978</u>	<u>1,338,780</u>
Total nonoperating expenses	<u>(9,703,861)</u>	<u>(10,667,788)</u>
Contributions in aid of construction	<u>14,816,558</u>	<u>23,527,156</u>
Change in net position	20,476,031	19,873,246
<b>Net position</b>		
Beginning of year, restated	<u>1,047,129,531</u>	<u>1,027,256,285</u>
End of year, restated	<u>\$ 1,067,605,562</u>	<u>\$ 1,047,129,531</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  
Years Ended June 30, 2014 and 2013**

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	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 188,713,365	\$ 184,544,815
Cash payments to suppliers for goods and services	(94,895,385)	(83,091,063)
Cash payments to employees for services	(44,333,099)	(43,099,841)
Other income, net	427,978	1,338,780
Net cash provided by operating activities	<u>49,912,859</u>	<u>59,692,691</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets, net of contributions in aid of construction	(19,588,859)	(18,911,159)
Proceeds from sale of capital assets	-	9,665
Customer payments for capital projects	7,320,479	8,771,917
Principal paid on bonds	(7,335,000)	(7,985,000)
Interest paid on bonds	(13,011,178)	(12,361,416)
Proceeds from notes payable	3,428,392	85,061
Interest paid on notes payable	(100,506)	(124,975)
Principal paid on notes payable	(1,608,357)	(1,550,528)
Net cash used in capital and related financing activities	<u>(30,895,029)</u>	<u>(32,066,435)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(162,896,293)	(144,688,330)
Proceeds from maturities of investments	133,643,657	119,814,269
Interest on investments	2,148,859	2,812,044
Net cash used in investing activities	<u>(27,103,777)</u>	<u>(22,062,017)</u>
Net increase (decrease) in cash and cash equivalents	(8,085,947)	5,564,239
<b>Cash and cash equivalents</b>		
Beginning of year	<u>35,601,120</u>	<u>30,036,881</u>
End of year (including \$12,623,052 and \$15,197,057 in restricted assets in 2014 and 2013, respectively)	<u>\$ 27,515,173</u>	<u>\$ 35,601,120</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  
Years Ended June 30, 2014 and 2013**

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	<b>2014</b>	<b>2013</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 15,363,334	\$ 7,013,878
Depreciation	47,515,750	43,399,565
Provision for doubtful accounts	(827,185)	(646,148)
Other revenues	427,978	1,338,780
Changes in assets and liabilities		
Customer receivables	(3,083,381)	1,936,726
Materials and supplies	1,171,687	(1,517,992)
Other receivables	591,897	(705,689)
Prepaid expenses	(203,479)	71,645
Accounts and contracts payable	1,403,551	5,727,342
Accrued vacation	164,931	284,743
Other postemployment benefits	(7,501,667)	448,450
Other liabilities	(5,110,557)	2,341,391
Net cash provided by operating activities	<u>\$ 49,912,859</u>	<u>\$ 59,692,691</u>
<b>Noncash capital and related financing activities</b>		
Contributions of capital assets from government agencies, developers and customers that are recorded as contributions in aid of construction	\$ 7,496,079	\$ 14,755,239
Amortization of other costs	29,150	120,997
Amortization of bond premium, net	(1,029,960)	(1,022,366)
Amortization of deferred loss on refunding	538,647	538,647

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, 2014 and 2013**

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#### **1. Operations**

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

#### **2. Summary of Significant Accounting Policies**

##### **Financial Statement Presentation, Measurement Focus and Basis of Accounting**

The BWS is a component unit of the City (the "primary government"). The accompanying financial statements present only the activities of the BWS and do not include other organizations, activities and functions of the City.

The accounting policies of the BWS conform to U.S. generally accepted accounting principles as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The BWS distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the BWS's principal ongoing water operations. The principal operating revenues are from charges for water usage, while operating expenses include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables, accrued workers' compensation, and postretirement benefits. Actual results could differ from those estimates.

##### **Regulation and Water Rates**

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

##### **Cash and Cash Equivalents**

The BWS 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.

**Board of Water Supply  
City and County of Honolulu  
Notes to Financial Statements  
June 30, 2014 and 2013**

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**Investments**

Investments are stated at fair value, which are based on quoted market prices. The cost of securities sold is generally determined by the weighted average method.

**Receivables**

Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the BWS's best estimate of the amount of probable credit losses in the BWS's existing receivables. The BWS determines the allowance based on historical write-off experience. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**Materials and Supplies**

Materials and supplies are stated at the lower of weighted average cost or market. The weighted average cost method approximates the first-in, first-out method. The cost of materials and supplies are recorded as expenses when consumed rather than when purchased.

**Restricted Assets**

Restricted assets are comprised of cash and cash equivalents and investments maintained in accordance with bond resolutions and other agreements for the purpose of funding certain debt service payments, construction, improvements, and renewal and replacements of the water system. When both restricted and unrestricted assets are available for use, it is the BWS's policy to use restricted assets first, then unrestricted assets as they are needed. Restricted assets comprise the following:

- The debt service account accumulates transfers from the operating account throughout the fiscal year to make principal and interest payments on the outstanding water revenue bonds and other notes payable.
- The renewal and replacement account provides funding for improvements, reconstruction, emergency or extraordinary repairs, and renewals or replacements of the water system.
- The improvement account holds the proceeds of the series bond issuance pursuant to the series resolution or series certificates. These proceeds are only applied to costs specified in the applicable series resolution or series certificates.
- The extramural account holds reimbursements received from any governmental agency or private entity, pursuant to negotiated agreements, contracts and/or grants.

**Capital Assets**

Capital assets include those assets in excess of \$5,000 for buildings, structures, infrastructure, and equipment and machinery with a useful life of more than one year. Capital assets are stated at cost and include contributions by governmental agencies, private subdividers, and customers at their cost or estimated cost of new construction.

Major replacements, renewals, and betterments are capitalized. Interest costs are capitalized during the construction period of major capital projects. Interest costs incurred in the years ended June 30, 2014 and 2013 totaled \$12,974,750 and \$13,281,328, respectively. Capitalized interest costs totaled \$814,252 and \$1,053,169 for the years ended June 30, 2014 and 2013, respectively. The BWS 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.

**Board of Water Supply  
City and County of Honolulu  
Notes to Financial Statements  
June 30, 2014 and 2013**

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Assets are depreciated over the individual assets' estimated useful lives using the straight-line method. Depreciation on both purchased and contributed assets is charged against operations.

The estimated useful lives of capital assets are as follows:

Source of supply	20 to 100 years
Pumping plant	20 to 50 years
Water treatment plant	20 to 30 years
Transmission and distribution plant	13 $\frac{1}{3}$ to 50 years
General plant	5 to 50 years

Gains or losses resulting from the sale, retirement or disposal of capital assets in service are charged or credited to operations.

**Bond Issue Prepaid Insurance Costs, Original Issue Discount or Premium, and Deferred Loss on Refundings**

Bond issue costs are expensed when incurred, except for prepaid insurance costs related to bond issuance, which are amortized over the life of the respective issue on a straight-line basis. Original issue discount or premium and deferred loss on refunding are also amortized using the straight-line method over the terms of the respective issues. Original issue discount or premium are added to or offset against bonds payable in the statements of net position.

**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 as of the end of the calendar year and are convertible to pay upon termination.

The BWS accrues a liability for compensated absences and additional amounts for certain salary-related payments including payroll taxes and fringe benefits.

As of June 30, 2014 and 2013, accumulated sick leave aggregated approximately \$18,240,000 and \$17,430,000, respectively. 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. However, an employee who retires or leaves government service in good standing with 60 or more unused sick days is entitled to additional service credit in the State of Hawaii's Employees' Retirement System.

**Water System Facilities Charge**

A water system facilities charge is levied against all new developments and residential properties requiring water from the BWS'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 initially recorded as customer advances and are recognized as contributions in aid of construction when water service is made available to the customer. The use of these funds is designated for the construction of water facilities.

# **Board of Water Supply**

## **City and County of Honolulu**

### **Notes to Financial Statements**

#### **June 30, 2014 and 2013**

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#### **Net Position**

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions in aid of construction. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net position. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction or improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments at year-end is not included in the calculation of invested in capital assets, net of related debt. Restricted for capital activity and debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation. Unrestricted consists of all other net assets not included in the above categories.

#### **Revenue Recognition**

Beginning in January 2013, the BWS's policy is to bill customers on a cyclical monthly basis for water usage. The accrual for unbilled water revenues and related receivables reflected in the accompanying financial statements is based on estimated usage from the latest meter reading date to the end of the fiscal period.

#### **Contributions in Aid of Construction**

Contributions in aid of construction represent cash or capital assets received by the BWS to aid in the construction of infrastructure assets. Contributions in aid of construction are recognized when they are accepted by the BWS and when all applicable eligibility requirements have been met.

#### **Pension Expense**

The BWS's contributions to the Employees' Retirement System of the State of Hawaii are based upon actuarial computations and include current service costs and amortization of prior service costs. The BWS's policy is to fund pension costs accrued.

#### **Deferred Compensation Plan**

All full-time employees are eligible to participate in the City and County of Honolulu's Public Employees' Deferred Compensation Plan (the "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.

A trust fund was established to protect plan assets from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. Accordingly, the BWS has excluded the Plan's assets and liabilities from the financial statements because the BWS and the City do not have significant administrative involvement in the Plan or perform the investment function for the Plan.

#### **Risk Management**

The BWS 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, and (5) employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

**Board of Water Supply  
City and County of Honolulu  
Notes to Financial Statements  
June 30, 2014 and 2013**

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The ranges of insurance limits and deductibles are as follows:

Policy	Limits (Millions)	Deductibles
Property	\$ 60	\$ 50,000
Public Entity Liability	15	750,000
Excess Workers' Compensation	25	600,000
Employment Practices	5	75,000
Storage Tank Liability	2	10,000
Pollution Legal Liability	5	250,000
Crime	5	25,000

**New Accounting Pronouncements**

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which became effective for reporting periods beginning after December 15, 2012. The objective of this Statement is to clarify the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. Management has adopted the new standard as presented in BWS's financial statements.

The GASB issued Statement No. 66, *Technical Corrections – 2012*, which became effective for reporting periods beginning after December 15, 2012. The objective of this Statement is to enhance usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement did not have a material effect on the BWS's financial statements.

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which became effective for reporting periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement did not have a material effect on BWS's financial statements.

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The Statement amends and addresses an issue regarding application of the transition provisions of Statement No. 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

**Board of Water Supply  
City and County of Honolulu  
Notes to Financial Statements  
June 30, 2014 and 2013**

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**3. Cash and Investments**

Cash deposited with the City is maintained in separate accounts 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 financial institution authorized to do business in the State of Hawaii, provided that all deposits are fully insured or collateralized. The City's demand deposits are fully insured or collateralized with securities held by the City or its agents in the City's name. The HRS authorizes the BWS 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 financial institutions authorized to do business in the State of Hawaii.

The BWS's portfolio is managed by various investment managers. These investments consist of U.S. government securities. Investments and securities issued by U.S. government-sponsored enterprises are recorded at fair value based on quoted market prices.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the term of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses, the BWS invests operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. Because the BWS invests primarily in obligations of the U.S. government or U.S. government-sponsored enterprises, it is not exposed to significant credit risk.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the BWS will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. All investments are registered in the name of the BWS and are held in the possession of a broker-dealer firm. At June 30, 2014, \$3,789,346 in cash and cash equivalents and all investments were held by a broker-dealer firm. Cash, cash equivalents and investments held by the broker-dealer firm are insured up to \$500,000, of which up to \$250,000 may be uninvested cash, by the Securities Investor Protection Corporation. Excess coverage purchased from a private insurer by the broker-dealer firm is designed to provide additional protection up to the full net equity value of each account.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The BWS's concentration of credit risk related to investments in debt securities has been mitigated by limiting such investments to only debt obligations of the U.S. government and U.S. government-sponsored enterprises.

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The historical cost and estimated fair value of investments at June 30, 2014 and 2013 consisted of the following:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
U.S. Treasury obligations	\$ 162,171,248	\$ 161,975,315	\$ 130,259,846	\$ 129,492,270
U.S. Government agencies	54,905,414	54,540,926	56,553,861	55,789,601
	<u>\$ 217,076,662</u>	<u>\$ 216,516,241</u>	<u>\$ 186,813,707</u>	<u>\$ 185,281,871</u>

At June 30, 2014, each investment had a credit quality rating of Aaa. The credit exposure as a percentage of total investments was as follows:

	Percent of Total	Fair Value
U.S. Treasury obligations	75%	\$ 161,975,315
U.S. Government agencies		
Federal National Mortgage Association	13%	29,156,329
Federal Home Loan Mortgage Corporation	9%	18,860,542
Federal Home Loan Bank	3%	6,524,055
	<u>100%</u>	<u>\$ 216,516,241</u>

The fair value of investments at June 30, 2014 by contractual maturity is shown below:

	Investment Maturities (In Years)		
	Fair Value	Less Than 1	1 – 5
U.S. Treasury obligations	\$ 161,975,315	\$ 12,002,720	\$ 149,972,595
U.S. Government agencies	54,540,926	5,085,127	49,455,799
	<u>\$ 216,516,241</u>	<u>\$ 17,087,847</u>	<u>\$ 199,428,394</u>

**4. Restricted Assets**

At June 30, 2014 and 2013, the BWS's restricted assets were comprised of cash and cash equivalents, debt securities, and due from broker receivables and were held for the following purposes:

	2014	2013
Construction, renewals, and replacements	\$ 2,853,195	\$ 2,801,286
Debt service	38,544,520	40,411,522
	<u>\$ 41,397,715</u>	<u>\$ 43,212,808</u>

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**5. Capital Assets**

Capital assets activity during the years ended June 30, 2014 and 2013 were as follows:

	Balance July 1, 2013	Additions	Transfers	Retirements	Balance June 30, 2014
<b>Depreciable assets</b>					
Infrastructure	\$ 1,365,850,204	\$ 7,121,252	\$ 53,288,910	\$ (591,813)	\$ 1,425,668,553
Buildings and improvements	152,197,864	-	5,801,630	(342,367)	157,657,127
Equipment and machinery	<u>266,854,387</u>	<u>1,659,990</u>	<u>14,438,174</u>	<u>(241,870)</u>	<u>282,710,681</u>
Total depreciable assets	1,784,902,455	8,781,242	73,528,714	(1,176,050)	1,866,036,361
Less: Accumulated depreciation	<u>(808,738,703)</u>	<u>(47,515,750)</u>	-	<u>771,888</u>	<u>(855,482,565)</u>
Total depreciable assets, net	<u>976,163,752</u>	<u>(38,734,508)</u>	<u>73,528,714</u>	<u>(404,162)</u>	<u>1,010,553,796</u>
Land	32,373,064	-	-	-	32,373,064
Construction work in progress	<u>129,927,360</u>	<u>42,298,477</u>	<u>(94,674,880)</u>	-	<u>77,550,957</u>
Net capital assets	<u>\$ 1,138,464,176</u>	<u>\$ 3,563,969</u>	<u>\$ (21,146,166)</u>	<u>\$ (404,162)</u>	<u>\$ 1,120,477,817</u>
<b>Balance July 1, 2012</b>					
<b>Depreciable assets</b>					
Infrastructure	\$ 1,323,318,170	\$ 12,759,768	\$ 30,259,390	\$ (487,124)	\$ 1,365,850,204
Buildings and improvements	149,119,056	922,294	2,156,514	-	152,197,864
Equipment and machinery	<u>243,497,917</u>	<u>3,649,601</u>	<u>20,852,790</u>	<u>(1,145,921)</u>	<u>266,854,387</u>
Total depreciable assets	1,715,935,143	17,331,663	53,268,694	(1,633,045)	1,784,902,455
Less: Accumulated depreciation	<u>(766,708,010)</u>	<u>(43,399,565)</u>	-	<u>1,368,872</u>	<u>(808,738,703)</u>
Total depreciable assets, net	<u>949,227,133</u>	<u>(26,067,902)</u>	<u>53,268,694</u>	<u>(264,173)</u>	<u>976,163,752</u>
Land	32,373,064	-	-	-	32,373,064
Construction work in progress	<u>164,784,029</u>	<u>38,364,014</u>	<u>(73,220,683)</u>	-	<u>129,927,360</u>
Net capital assets	<u>\$ 1,146,384,226</u>	<u>\$ 12,296,112</u>	<u>\$ (19,951,989)</u>	<u>\$ (264,173)</u>	<u>\$ 1,138,464,176</u>

Depreciation charges allocated to various functions for the years ended June 30, 2014 and 2013 totaled \$1,574,748 and \$1,624,739, respectively.

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**6. Bonds Payable**

At June 30, 2014 and 2013, bonds payable consisted of the following:

	2014	2013 (restated)
Water System Revenue Bonds, Series 2004, annual principal due of \$2,465,000 through July 1, 2014, with interest of 4.00%.	\$ 2,465,000	\$ 4,830,000
Water System Revenue Bonds, Series 2006A, annual principal due commencing July 1, 2012, ranging from \$595,000 to \$11,965,000 through July 1, 2036, with interest ranging from 4.00% to 5.00%.	155,730,000	156,745,000
Water System Revenue Bonds, Series 2006B, annual principal due ranging from \$2,335,000 to \$4,455,000 through July 1, 2021, with interest ranging from 5.00% to 5.25%.	29,105,000	32,200,000
Water System Revenue Bonds, Series 2012A, annual principal due ranging from \$890,000 to \$8,535,000 through July 1, 2033, with interest ranging from 3.00% to 5.00%.	<u>82,545,000</u>	<u>83,405,000</u>
	269,845,000	277,180,000
Add: Unamortized premium	<u>13,474,041</u>	<u>14,504,001</u>
	283,319,041	291,684,001
Less: Current portion	<u>(7,660,000)</u>	<u>(7,335,000)</u>
Noncurrent portion	<u>\$ 275,659,041</u>	<u>\$ 284,349,001</u>

Principal and interest payments on water system revenue bonds are to be paid from the BWS's revenue. Water system revenue bonds are subject to redemption on and after specific dates prior to maturity at the option of the BWS. The redemption amount equals the outstanding principal amount plus accrued interest without premium on the date of redemption.

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Bonds payable activity during 2014 and 2013, were as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
<b>Water System Revenue Bonds</b>					
Series 2004	\$ 4,830,000	\$ -	\$ (2,365,000)	\$ 2,465,000	\$ 2,465,000
Series 2006A	156,745,000	-	(1,015,000)	155,730,000	1,050,000
Series 2006B	32,200,000	-	(3,095,000)	29,105,000	3,255,000
Series 2012A	83,405,000	-	(860,000)	82,545,000	890,000
	<u>\$ 277,180,000</u>	<u>\$ -</u>	<u>\$ (7,335,000)</u>	<u>\$ 269,845,000</u>	<u>\$ 7,660,000</u>
	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
<b>Water System Revenue Bonds</b>					
Series 2004	\$ 7,110,000	\$ -	\$ (2,280,000)	\$ 4,830,000	\$ 2,365,000
Series 2006A	157,720,000	-	(975,000)	156,745,000	1,015,000
Series 2006B	35,140,000	-	(2,940,000)	32,200,000	3,095,000
Series 2012A	85,195,000	-	(1,790,000)	83,405,000	860,000
	<u>\$ 285,165,000</u>	<u>\$ -</u>	<u>\$ (7,985,000)</u>	<u>\$ 277,180,000</u>	<u>\$ 7,335,000</u>

At June 30, 2014, future bond principal and interest payments are as follows:

	Principal	Interest	Total
<b>Year Ending June 30,</b>			
2015	\$ 7,660,000	\$ 12,688,000	\$ 20,348,000
2016	8,005,000	12,346,000	20,351,000
2017	8,365,000	11,983,000	20,348,000
2018	8,745,000	11,604,000	20,349,000
2019	9,150,000	11,200,000	20,350,000
2020–2024	53,320,000	48,794,000	102,114,000
2025–2029	68,330,000	34,269,000	102,599,000
2030–2034	77,600,000	16,429,000	94,029,000
2035–2037	28,670,000	2,198,000	30,868,000
Total	<u>\$ 269,845,000</u>	<u>\$ 161,511,000</u>	<u>\$ 431,356,000</u>

In February 2001, the BWS created an irrevocable trust with an escrow agent to retire \$32,460,000 of the BWS's outstanding 1992 general obligation water bonds. The escrow agent will pay all future debt service payments on the 1992 Series bonds out of the irrevocable trust. Consequently, the 1992 Series bonds were considered to be defeased and the liability for the bonds was removed from the BWS's financial statements in 2001. At June 30, 2014 and 2013, the outstanding 1992 Series defeased bonds amounted to \$6,095,000 and \$8,885,000, respectively.

In July 2006, the BWS issued \$213,805,000 in water system revenue bonds which consisted of \$165,195,000 of Series 2006A and \$48,610,000 of Series 2006B bonds. A portion of the proceeds of the issuance were used to refund, on a current basis, all of the BWS's outstanding Series 2002 bonds and to advance refund a portion of the outstanding 2001 Series and 2004 Series bonds. Consequently, a portion of the 2001 Series and 2004 Series bonds were considered to be defeased and were removed from the BWS's financial statements in 2007.

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In March 2012, the BWS issued \$85,195,000 in Series 2012A water system revenue bonds. The proceeds of the issuance were used to refund, on a current basis, all of the BWS's outstanding Series 2001 bonds and to advance refund a portion of the outstanding 2004 Series and 2006A Series bonds. Consequently, a portion of the 2004 Series and 2006A Series bonds were considered defeased and were removed from the BWS's financial statements in 2012. This refunding was undertaken to reduce total debt service payments by \$9,512,024 and resulted in an economic gain of approximately \$7,152,000. At June 30, 2014 and 2013, the outstanding 2004 Series defeased bonds totaled \$78,665,000. The outstanding 2006A Series defeased bonds totaled \$7,475,000 as of June 30, 2014 and 2013.

The debt refunding that occurred during 2007 and 2012 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2,464,000 and \$8,238,000, respectively. These differences reported in the accompanying financial statements as a deferred outflow of resources are being charged to operations through the year 2031 using the straight-line method.

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**7. Notes Payable**

At June 30, 2014 and 2013, notes payable consisted of the following:

	<b>2014</b>	<b>2013</b>
<b>Notes payable to Department of Health</b>		
Note payable in semi-annual installments of approximately \$60,100, including interest at .10%, due June 2025	\$ 1,315,432	\$ 1,434,323
Non-interest bearing note payable in semi-annual installments of approximately \$75,000, due September 2025	1,723,921	1,873,828
Note payable in semi-annual installments of approximately \$104,400, including interest at .31%, due November 2025	2,358,006	2,559,105
Note payable in semi-annual installments of approximately \$316,100, including interest at .10%, due February 2026	7,539,271	7,813,086
Note payable in semi-annual installments of approximately \$10,200, including interest at .10%, due January 2027	254,045	274,238
Note payable in semi-annual installments of approximately \$70,200, including interest at .01%, due August 2027	1,894,750	2,035,004
Note payable in semi-annual installments of approximately \$32,500, including interest at .01%, due March 2028	909,557	974,477
Note payable in semi-annual installments of approximately \$49,700, including interest at .01%, due March 2028	1,390,790	1,490,058
Note payable in semi-annual installments of approximately \$36,100, including interest at .36%, due June 2028	983,446	1,051,902
Note payable in semi-annual installments of approximately \$18,300, including interest at 1.0%, due April 2033	1,049,360	-
Note payable in semi-annual installments of approximately \$34,200, including interest at 1.0%, due April 2033	2,011,468	-
<b>Notes payable to other lenders</b>		
Note payable in monthly installments of approximately \$15,700, including interest at 5%, due September 2025	1,588,386	1,692,376
	<u>23,018,432</u>	<u>21,198,397</u>
Less: Current portion	<u>1,735,067</u>	<u>1,554,435</u>
Noncurrent portion	<u>\$ 21,283,365</u>	<u>\$ 19,643,962</u>

The notes payable to the Department of Health are state revolving fund loans and are collateralized by net revenues of the BWS.

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At June 30, 2014, future principal and interest payments for notes payable are as follows:

	Principal	Interest	Total
<b>Year Ending June 30,</b>			
2015	\$ 1,735,000	\$ 129,000	\$ 1,864,000
2016	1,754,000	121,000	1,875,000
2017	1,763,000	112,000	1,875,000
2018	1,772,000	103,000	1,875,000
2019	1,781,000	93,000	1,874,000
2020–2024	9,061,000	312,000	9,373,000
2025–2029	4,460,000	76,000	4,536,000
2030–2033	692,000	16,000	708,000
Total	<u>\$ 23,018,000</u>	<u>\$ 962,000</u>	<u>\$ 23,980,000</u>

**8. Other Long-Term Liabilities**

The following is a summary of changes in other long-term liabilities for the years ended June 30, 2014 and 2013:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Customer advances	\$ 894,125	\$ 35,607	\$ -	\$ 929,732	\$ -
Accrued vacation	6,506,357	2,831,538	(2,666,607)	6,671,288	2,666,607
Accrued workers' compensation	2,305,822	887,485	(1,141,781)	2,051,526	-
Other postemployment benefits	460,450	8,981,000	(9,441,450)	-	-
Accrued arbitrage rebate liability	48,873	17,015	-	65,888	-
Other	2,134,881	350,432	(1,140,326)	1,344,987	-
	<u>\$ 12,350,508</u>	<u>\$ 13,103,077</u>	<u>\$ (14,390,164)</u>	<u>\$ 11,063,421</u>	<u>\$ 2,666,607</u>
	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2013</b>	<b>Due Within One Year</b>
Customer advances	\$ 1,387,908	\$ -	\$ (493,783)	\$ 894,125	\$ -
Accrued vacation	6,221,614	1,749,033	(1,464,290)	6,506,357	1,464,290
Accrued workers' compensation	2,393,549	1,211,800	(1,299,527)	2,305,822	-
Other postemployment benefits	12,000	8,681,000	(8,232,550)	460,450	-
Accrued arbitrage rebate liability	48,873	-	-	48,873	-
Other	2,330,845	134,034	(329,998)	2,134,881	-
	<u>\$ 12,394,789</u>	<u>\$ 11,775,867</u>	<u>\$ (11,820,148)</u>	<u>\$ 12,350,508</u>	<u>\$ 1,464,290</u>

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**9. Net Position**

The BWS's net position consisted of the following as of June 30, 2014 and 2013:

	<b>2014</b>	<b>2013 (restated)</b>
<b>Invested in capital assets, net of related debt</b>		
Capital assets, net	\$ 1,120,477,817	\$ 1,138,464,176
Deferred loss on refunding	8,759,961	9,298,608
Less: Noncurrent portion of water system revenue bonds payable	(275,659,041)	(284,349,001)
Less: Noncurrent portion of notes payable	<u>(21,283,365)</u>	<u>(19,643,962)</u>
Total invested in capital assets, net of related debt	<u>832,295,372</u>	<u>843,769,821</u>
<b>Restricted for capital activity and debt service</b>		
Restricted cash and cash equivalents	12,623,052	15,197,057
Restricted investments	28,774,663	26,685,751
Restricted other receivables	-	1,330,000
Less: Contracts payable, including retainages	(2,914,254)	(937,401)
Less: Accrued interest payable	(6,596,473)	(6,750,422)
Less: Current portion of bonds payable	(7,660,000)	(7,335,000)
Less: Current portion of notes payable	<u>(1,735,067)</u>	<u>(1,554,435)</u>
Total restricted for capital activity and debt service	22,491,921	26,635,550
Unrestricted	<u>212,818,269</u>	<u>176,724,160</u>
Total net position	<u>\$ 1,067,605,562</u>	<u>\$ 1,047,129,531</u>

**10. Leases**

The BWS leases certain properties to other users, primarily utility and telecommunications companies, under multi-year license agreements. The terms of these agreements range from 5 to 30 years. The agreements are generally based on fixed annual amounts, with provisions for increases.

The BWS also leases space for its deep seawater cooling project on Oahu under an operating lease that extends through September 2025. The lease is subject to early cancellation contingent on mutual agreement between BWS and the lessor.

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The future minimum rental payments and sublease income from these operating leases at June 30, 2014 were as follows:

	<b>Future Minimal Rental Payments</b>	<b>Less Sublease Income</b>	<b>Net Minimum Future Rental (Income) Expense</b>
<b>Year Ending June 30,</b>			
2015	\$ 159,000	\$ 205,000	\$ (46,000)
2016	159,000	198,000	(39,000)
2017	159,000	173,000	(14,000)
2018	159,000	105,000	54,000
2019	159,000	100,000	59,000
2020–2024	793,000	500,000	293,000
2025–2029	192,000	500,000	(308,000)
2030–2034	-	200,000	(200,000)
	<u>\$ 1,780,000</u>	<u>\$ 1,981,000</u>	<u>\$ (201,000)</u>

**11. Related Party Transactions**

The BWS has an agreement with the Department of Environmental Services, City and County of Honolulu to provide certain services relating to the billing and collection of sewer service charges. Fees related to these services were negotiated at approximately \$1,433,000 and \$1,424,900 for the years ended June 30, 2014 and 2013, respectively.

The BWS has 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 BWS on an on-going basis. The BWS’s Charter allows for CASE fees to the extent that it represents a reasonable charge for services necessary for the BWS to perform its duties. CASE fees incurred during the years ended June 30, 2014 and 2013 totaled \$3,300,000.

Amounts due from the City totaled \$36,326 as of June 30, 2014 and was included in other receivables. There were no amounts due from the City as of June 30, 2013.

The BWS has entered into agreements with the City for joint capital projects. There were no amounts advanced from the City as of June 30, 2014. The City advanced to the BWS \$928,325 during the year ended June 30, 2013. The advanced amounts represent the City’s share of total project expenses. Unexpended advanced funds totaled \$861,723 as of June 30, 2014 and 2013, and are included in other liabilities.

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**12. Employee Benefit Plans**

**Defined Benefit Pension Plan**

Substantially all eligible employees of the BWS are members of the Employees' Retirement System of the State of Hawaii ("ERS"), a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS is comprised of a contributory, noncontributory and hybrid contributory retirement plan. Prior to June 30, 1984, the plan consisted of only a contributory option. Effective July 1, 1984, legislation was enacted to create a noncontributory plan for members of the ERS who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the noncontributory plan and receive a refund of employee contributions.

The plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation ("AFC"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003 is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar year plus lump sum vacation payment, or last 36 credited months or last 60 credited months plus lump sum vacation payment.

Employees under the contributory and hybrid contributory plans hired prior to July 1, 2012 are entitled to a benefit multiplier of 2.0% of average final compensation. Employees who joined the contributory and hybrid contributory plans subsequent to June 30, 2012 receive a benefit multiplier of 1.75%. Members of the noncontributory plan receive a benefit multiplier of 1.25%.

Effective July 1, 2006, most general employees are required to become members of the hybrid contributory plan. Employees under the hybrid contributory plan that became members prior to July 1, 2012 are required to contribute 6.0% of their salary and fully vest upon receiving 5 years of credited service. Employees under the hybrid contributory plan that became members subsequent to June 30, 2012 are required to contribute 8.0% of their salary and fully vest upon receiving 10 years of credited service.

Most covered employees under the contributory plan that are covered by Social Security that became members prior to July 1, 2012 are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. General employees that became members subsequent to June 30, 2012 are required to contribute 9.8% of their salary and become fully vested with 10 years of credited service.

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Prior to July 1, 2005, the funding method used to calculate the total employer contribution requirement was the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS were comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 29 years from July 1, 2000. Effective July 1, 2008, employer contribution rates are a fixed percentage of compensation, generally 15.0% for most covered employees. The BWS's contributions to the ERS for the years ended June 30, 2014, 2013 and 2012, were approximately \$5,162,000, \$4,604,000 and \$4,405,000, respectively, which represented approximately 15.5% of the BWS's covered payroll for the fiscal years ended June 30, 2014, 2013 and 2012.

ERS issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information, which may be obtained at the following address: Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

#### **Post-Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State of Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer plan provides certain health care (medical, prescription, vision and dental) and life insurance benefits for retired BWS employees. Act 88 established the EUTF during the 2001 legislative session and is codified in HRS 87A. Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage.

For employees hired before July 1, 1996, the BWS pays 100% of the monthly health care premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996 and retiring with 25 years or more of service, the BWS pays the entire health care premium. For employees retiring with at least 15 years but fewer than 25 years of service, the BWS pays 75% of the monthly Medicare or non-Medicare premium. For those retiring with at least 10 years but fewer than 15 years of service, the BWS pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with fewer than 10 years of service, the BWS makes no contributions.

For employees hired after June 30, 2001 and retiring with over 25 years of service, the BWS pays 100% of the monthly premium based on the self plan. For those who retire with at least 15 years but fewer than 25 years of service, the BWS pays 75% of the retired employees' monthly Medicare or non-Medicare premium based on the self plan. For those retiring with at least ten years but fewer than 15 years of service, the BWS pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self plan. For those retiring with fewer than 10 years of service, the BWS makes no contributions.

The BWS also reimburses 100% of Medicare premium costs for retirees and qualified dependents (through the State of Hawaii), who are at least 65 years of age and have at least 10 years of service.

The BWS is required to contribute the annual required contribution ("ARC") of the employer, an amount actuarially determined for the other postemployment benefits ("OPEB"). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities or funding excess over a period not to exceed thirty years.

**Board of Water Supply  
City and County of Honolulu  
Notes to Financial Statements  
June 30, 2014 and 2013**

For the fiscal years ended June 30, 2014, 2013 and 2012, the components of the BWS's annual OPEB costs, the amounts contributed to the plan and the changes to the BWS's net OPEB asset (obligation) are summarized as follows:

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Annual required contribution	\$ 8,977,000	\$ 8,674,000	\$ 10,750,000
Interest on net OPEB obligation	32,000	54,000	53,000
Adjustment to annual required contribution	<u>(28,000)</u>	<u>(47,000)</u>	<u>(44,000)</u>
Annual OPEB cost	8,981,000	8,681,000	10,759,000
Contributions made	<u>(16,482,667)</u>	<u>(8,232,550)</u>	<u>(11,755,000)</u>
Change in net OPEB asset (obligation)	7,501,667	(448,450)	996,000
Net OPEB asset (obligation)			
Beginning of year	<u>(460,450)</u>	<u>(12,000)</u>	<u>(1,008,000)</u>
End of year	<u>\$ 7,041,217</u>	<u>\$ (460,450)</u>	<u>\$ (12,000)</u>
Percentage of annual OPEB cost contributed	<u>184%</u>	<u>95%</u>	<u>109%</u>

The funded status of the plan as of the most recent valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Actuarial AAL ("UAAL")	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
July 1, 2013	\$ 25,638,000	\$ 122,886,000	\$ 97,248,000	21%	\$ 31,677,000	307%
July 1, 2011	\$ 14,557,000	\$ 127,154,000	\$ 112,597,000	11%	\$ 29,900,000	377%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a discount rate of 7.0%, projected salary increases of 3.5%, and an annual health cost trend rates of 9.0% and 7.5% for PPO and HMO, respectively, reduced by decrements to an ultimate rate of 5.0% after 10 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amounts over a thirty-year closed period ending June 30, 2037.

**Board of Water Supply  
City and County of Honolulu  
Notes to Financial Statements  
June 30, 2014 and 2013**

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The EUTF issues a stand-alone financial report that includes financial statements and required supplementary information, which may be obtained at the following address: State of Hawaii Employer-Union Health Benefits Trust Fund, P.O. Box 2121, Honolulu, Hawaii 96805.

**13. Commitments**

Commitments, primarily for capital improvements, approximated \$156,680,000 and \$116,900,000 as of June 30, 2014 and 2013, respectively. Such amounts are to be funded by operating revenues, contributed capital, cash and investments on hand.

**14. Contingencies**

**Workers' Compensation Self-Insurance Liability**

The BWS is self-insured for workers' compensation and disability claims up to \$600,000 and in excess of \$25,000,000. The BWS has obtained excess insurance coverage for claims that are not self-insured. All claims are reported to and managed by the City's Workers' Compensation Division (the "Division"). The BWS provides reserves for claims not covered by insurance that in the opinion of the Division will result in probable judgment against the BWS.

The liability for losses and loss adjustment expenses is comprised of case reserves and incurred but not reported loss reserves ("IBNR"). Case or outstanding loss reserves represent estimates of ultimate costs to settle reported claims. The estimated liability is presented at its net present value using a discount rate of 3%.

Determination of a reserve account for workers' compensation is a significant estimate. It is reasonably possible that one or more future events could result in a material change in the estimated claims loss in the near term.

**Arbitrage**

The BWS is required to annually calculate rebates to the U.S. Treasury on revenue bond issues. In accordance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amounts by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. As of June 30, 2014 and 2013, the arbitrage rebate and yield restriction liability totaled \$65,888 and \$48,873, respectively.

**Safe Drinking Water**

The BWS 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 U.S. Environmental Protection Agency. Management believes that the BWS is in full compliance with the requirements of the Act and is not aware of any matters under the Act that may materially affect the BWS's customer service area.

**Other Legal Matters**

The BWS 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 material adverse effect on the BWS's financial position, results of operations, or liquidity.

**Board of Water Supply  
City and County of Honolulu  
Notes to Financial Statements  
June 30, 2014 and 2013**

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**15. Restatement**

The BWS adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, in fiscal year 2014, which resulted in restating the 2013 financial statements. The effect on fiscal year 2013 was as follows:

<b>Financial Statement Item</b>	<b>2013 As Previously Reported</b>	<b>Restatement</b>	<b>2013 As Restated</b>
Other assets (bond issue costs)	\$ 2,172,821	\$ (1,664,170)	\$ 508,651
Deferred loss on refunding	-	9,298,608	9,298,608
Bonds payable, noncurrent	275,050,393	9,298,608	284,349,001
Net position, unrestricted	178,388,330	(1,664,170)	176,724,160
Net position			
Beginning of year	1,028,920,455	(1,664,170)	1,027,256,285
End of year	1,048,793,701	(1,664,170)	1,047,129,531

**Required  
Supplementary Information**

**Board of Water Supply  
City and County of Honolulu  
Schedule of Funding Progress  
June 30, 2014**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability ("AAL") (b)</b>	<b>Unfunded Actuarial Accrued Liability ("UAAL") (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)</b>
July 1, 2013	\$ 25,638,000	\$ 122,886,000	\$ 97,248,000	21%	\$ 31,677,000	307%
July 1, 2011	14,557,000	127,154,000	112,597,000	11%	29,900,000	377%
July 1, 2009	5,244,000	143,333,000	138,089,000	4%	33,104,000	417%

## **Supplementary Information**

**Board of Water Supply  
City and County of Honolulu  
Schedule of Bonds Payable  
June 30, 2014**

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Description of Bonds Payable	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (A)	Outstanding June 30, 2014
<b>Water System Revenue Bonds Series 2004</b>					
Insured Serial Bonds	4.000%	1/28/2004	7/1/2014	(B)	\$ 2,465,000
<b>Water System Revenue Bonds Series 2006A (Non-AMT)</b>					
Insured Serial Bonds	4.000%	7/7/2006	7/1/2014	(B)	1,050,000
Insured Serial Bonds	4.250%	7/7/2006	7/1/2015	(B)	3,660,000
Insured Serial Bonds	4.250%	7/7/2006	7/1/2016	(B)	3,820,000
Insured Serial Bonds	4.000%	7/7/2006	7/1/2017	(B)	3,000,000
Insured Serial Bonds	4.130%	7/7/2006	7/1/2017	(B)	975,000
Insured Serial Bonds	4.200%	7/7/2006	7/1/2018	(B)	1,185,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2019	7/1/2016	595,000
Insured Serial Bonds	4.130%	7/7/2006	7/1/2019	(B)	645,000
Insured Serial Bonds	4.130%	7/7/2006	7/1/2020	(B)	1,290,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2021	7/1/2016	960,000
Insured Serial Bonds	4.300%	7/7/2006	7/1/2021	(B)	390,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2022	(B)	2,740,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2023	(B)	8,225,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2024	(B)	8,595,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2025	7/1/2016	9,010,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2026	7/1/2016	9,470,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2027	(B)	9,925,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2028	7/1/2016	10,390,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2029	7/1/2016	10,890,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2030	7/1/2016	11,420,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2031	7/1/2016	11,965,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2032	7/1/2016	8,220,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2033	7/1/2016	8,640,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2034	7/1/2016	9,080,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2035	7/1/2016	9,550,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2036	7/1/2016	10,040,000
					155,730,000

(A) Call dates indicated are optional.  
(B) Noncallable.

**Board of Water Supply  
City and County of Honolulu  
Schedule of Bonds Payable  
June 30, 2014**

Description of Bonds Payable	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (A)	Outstanding June 30, 2014
<b>Water System Revenue Bonds Series 2006B (AMT)</b>					
Insured Serial Bonds	5.000%	7/7/2006	7/1/2014	(B)	3,255,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2015	(B)	3,430,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2016	(B)	3,605,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2017	7/1/2016	3,800,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2018	7/1/2016	4,005,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2019	7/1/2016	4,220,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2020	7/1/2016	4,455,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2021	7/1/2016	2,335,000
					<u>29,105,000</u>
<b>Water System Revenue Bonds Series 2012A (Non-AMT)</b>					
Insured Serial Bonds	3.00%	3/29/2012	7/1/2014	(B)	890,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2015	(B)	915,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2016	(B)	940,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2017	(B)	970,000
Insured Serial Bonds	4.00%	3/29/2012	7/1/2018	(B)	3,960,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2019	(B)	4,140,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2020	(B)	2,320,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2021	(B)	6,865,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2022	(B)	8,535,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2023	7/1/2022	3,605,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2024	7/1/2022	3,790,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2025	7/1/2022	3,980,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2026	7/1/2022	4,185,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2027	7/1/2022	4,390,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2028	7/1/2022	4,595,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2029	7/1/2022	4,805,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2030	7/1/2022	5,025,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2031	7/1/2022	5,270,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2032	7/1/2022	5,540,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2033	7/1/2022	5,825,000
Bifurcated Serial Bonds	2.00%	3/29/2012	7/1/2020	(B)	2,000,000
					<u>82,545,000</u>
					<u>\$ 269,845,000</u>

(A) Call dates indicated are optional.  
(B) Noncallable.

**Board of Water Supply  
City and County of Honolulu  
Schedule of Net Revenue Requirement  
Years Ended June 30, 2014 and 2013**

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	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Water sales	\$ 191,593,726	\$ 177,316,132
Interest	2,148,814	2,528,333
Other	3,776,974	4,527,984
Total revenues	<u>197,519,514</u>	<u>184,372,449</u>
<b>Deductions</b>		
Operating expenses	179,579,388	173,491,458
Less: Depreciation expense	(45,941,002)	(41,774,826)
Less: Allocated depreciation charges	(1,574,748)	(1,624,739)
Total deductions	<u>132,063,638</u>	<u>130,091,893</u>
Net revenues	<u>\$ 65,455,876</u>	<u>\$ 54,280,556</u>
<b>Net Revenue Requirement</b>		
Greater of		
1) Aggregate debt service	\$ 20,513,303	\$ 20,504,052
Required deposits	-	-
	<u>20,513,303</u>	<u>20,504,052</u>
2) Aggregate debt service	20,513,303	20,504,052
Minimum required debt service ratio	x 1.20	x 1.20
Net revenue requirement	<u>\$ 24,615,964</u>	<u>\$ 24,604,862</u>
Net revenue to aggregate debt service ratio	<u>3.19</u>	<u>2.65</u>