

ARTHUR ANDERSEN LLP

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

FINANCIAL STATEMENTS
AS OF JUNE 30, 1999 AND 1998
TOGETHER WITH AUDITORS' REPORT

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying balance sheets of the BOARD OF WATER SUPPLY (the Board), CITY AND COUNTY OF HONOLULU, as of June 30, 1999 and 1998, and the related statements of income and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Water Supply, City and County of Honolulu as of June 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 6 to the financial statements, effective July 1, 1998, the Board adopted Statement No. 32 of the Governmental Accounting Standards Board (GASB). GASB Statement No. 32 resulted in the exclusion of the Deferred Compensation Plan's assets and liabilities from the Board's financial statements.

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



Honolulu, Hawaii
September 13, 1999

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

BALANCE SHEETS - JUNE 30, 1999 AND 1998

ASSETS

	<u>1999</u>	<u>1998</u>
PROPERTY, PLANT AND EQUIPMENT (Note 1):		
Utility plant in service	\$947,719,975	\$895,563,770
Construction work in progress	44,052,494	31,527,305
	-----	-----
	991,772,469	927,091,075
Less-Accumulated depreciation	340,286,211	319,434,660
	-----	-----
Property, plant and equipment, net	651,486,258	607,656,415
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 and 2)	10,141,717	108,241
Investments (Note 2):		
Bank repurchase agreements	152,400,000	159,200,000
Time certificates of deposit	17,100,000	-
Government agency securities	2,199,574	-
Interest receivable	3,321,208	4,350,594
Customer receivables (Note 1):		
Billed (less allowance for uncollectable accounts of \$1,329,000 in 1999 and \$1,345,000 in 1998)	6,257,946	4,972,840
Unbilled	6,693,157	7,634,248
Other receivables	355,519	649,028
Materials and supplies	2,856,906	2,572,243
Prepaid expenses	128,486	86,380
	-----	-----
Total current assets	201,454,513	179,573,574
	-----	-----
RESTRICTED ASSETS (Notes 2 and 3):		
Cash and cash equivalents (Notes 1 and 2)	2,044,681	1,770,176
Investments (Note 2):		
Bank repurchase agreements	81,500,000	84,800,000
Time certificates of deposit	1,100,000	-
Government agency discount notes	5,497,514	-
Other receivables	560,871	449,474
Interest receivable	2,323,377	2,208,282
	-----	-----
Total restricted assets	93,026,443	89,227,932
	-----	-----
OTHER ASSETS:		
Investments designated for deferred compensation benefits, at market (Notes 2 and 6)	-	24,375,102
Other	580,983	350,998
	-----	-----
Total other assets	580,983	24,726,100
	-----	-----
	\$946,548,197	\$901,184,021
	=====	=====

The accompanying notes are an integral part of these balance sheets.

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

BALANCE SHEETS - JUNE 30, 1999 AND 1998

FUND EQUITY AND LIABILITIES

	<u>1999</u>	<u>1998</u>
FUND EQUITY:		
Retained earnings	\$338,798,865	\$307,375,932
	-----	-----
Contributions in aid of construction (Note 7):		
Government	106,348,737	94,371,595
Other	367,611,162	353,443,205
	-----	-----
	473,959,899	447,814,800
	-----	-----
Total fund equity	812,758,764	755,190,732
	-----	-----
LONG-TERM DEBT, net of current portion (Note 4)	52,870,000	56,130,000
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
CURRENT LIABILITIES:		
Payable from current assets:		
Current portion of general obligation water bonds (Note 4)	2,850,000	3,340,000
Accounts payable	2,657,707	2,060,301
Contracts payable, including retainages	6,567,016	2,555,045
Accrued interest payable	695,161	736,864
	-----	-----
	12,769,884	8,692,210
	-----	-----
Payable from restricted assets:		
Current portion of water system revenue bonds (Note 4)	410,000	390,000
Contracts payable, including retainages	541,621	791,707
Other	6,032	7,472
	-----	-----
	957,653	1,189,179
	-----	-----
Total current liabilities	13,727,537	9,881,389
	-----	-----
OTHER LIABILITIES:		
Customer advances for plant construction	54,124,688	45,869,468
Deferred compensation (Notes 2 and 6)	-	24,375,102
Accrued vacation and compensatory pay (Note 1)	7,149,460	7,413,853
Accrued workers' compensation (Note 9)	951,842	1,056,625
Other (Note 6)	4,965,906	1,266,852
	-----	-----
Total other liabilities	67,191,896	79,981,900
	-----	-----
	\$946,548,197	\$901,184,021
	=====	=====

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

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
OPERATING REVENUES:		
Water sales	\$ 97,580,622	\$ 98,479,525
Other, principally contract and service fees (net of expenses of \$648,000 in 1999 and \$565,000 in 1998)	1,537,626	1,423,278
	-----	-----
Total operating revenues	99,118,248	99,902,803
	-----	-----
OPERATING EXPENSES:		
Power and pumping	11,080,384	11,818,911
Water treatment	170,847	200,729
Source of supply	369,185	157,531
Transmission and distribution	5,101,103	5,305,659
Maintenance	16,794,215	15,876,971
Depreciation	23,504,770	21,848,892
Customers' accounting and collection	4,094,761	4,275,276
Administrative and general	18,382,920	19,543,459
	-----	-----
Total operating expenses	79,498,185	79,027,428
	-----	-----
Operating income	19,620,063	20,875,375
	-----	-----
NONOPERATING REVENUES (EXPENSES):		
Interest revenue	13,956,231	13,120,696
Interest expense (net of interest capitalized of \$1,027,000 in 1999 and \$1,019,000 in 1998)	(2,334,727)	(2,675,294)
Other	181,366	206,709
	-----	-----
Total nonoperating revenues	11,802,870	10,652,111
	-----	-----
Net income	31,422,933	31,527,486
	-----	-----
RETAINED EARNINGS, beginning of year	307,375,932	275,848,446
	-----	-----
RETAINED EARNINGS, end of year	\$338,798,865	\$307,375,932
	=====	=====

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

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 99,422,143	\$ 102,012,510
Cash payments to suppliers for goods and services	(27,974,597)	(31,678,627)
Cash payments to employees for services	(25,337,937)	(25,956,737)
Other revenues	181,366	206,709
	-----	-----
Net cash provided by operating activities	46,290,975	44,583,855
	-----	-----
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets, net of contributions in aid of construction	(41,334,990)	(28,843,488)
Principal paid on bonds	(3,730,000)	(3,595,000)
Interest paid on bonds	(3,363,494)	(3,876,249)
Customer advances for capital projects	13,372,056	4,699,052
	-----	-----
Net cash used in capital and related financing activities	(35,056,428)	(31,615,685)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(534,731,655)	(257,022,272)
Proceeds from maturities of investments	518,934,567	231,622,272
Interest on investments	14,870,522	12,688,317
	-----	-----
Net cash used in investing activities	(926,566)	(12,711,683)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,307,981	256,487
CASH AND CASH EQUIVALENTS, beginning of year	1,878,417	1,621,930
	-----	-----
CASH AND CASH EQUIVALENTS, end of year (including \$2,044,681 and \$1,770,176 in restricted accounts in 1999 and 1998, respectively)	\$ 12,186,398	\$ 1,878,417
	=====	=====

(continued)

	<u>1999</u>	<u>1998</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$19,620,063	\$20,875,375
	-----	-----
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	23,504,770	21,848,892
Other revenues	181,366	206,709
(Increase) decrease in assets:		
Customer receivables	(344,015)	1,544,951
Materials and supplies	(284,663)	113,319
Prepaid expenses	(42,106)	(68,344)
Other assets	(270,284)	334,781
Increase (decrease) in liabilities:		
Accounts payable	597,406	(512,390)
Accrued vacation	(264,393)	206,159
Accrued workers' compensation	(104,783)	(406,620)
Other liabilities	3,697,614	441,023
	-----	-----
Total adjustments	26,670,912	23,708,480
	-----	-----
Net cash provided by operating activities	\$46,290,975	\$44,583,855
	=====	=====

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:

The Board received approximately \$20,975,000 and \$13,352,000 in contributions of property, plant and equipment from governmental agencies, private subdividers and customers which are recorded as contributions in aid of construction at their cost or estimated cost for the years ended June 30, 1999 and 1998, respectively.

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, 1999

1. General and Summary of Significant Accounting Policies

Operations

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

Financial Statement Presentation

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

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

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

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulation and Water Rates

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

Property, Plant and Equipment

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

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

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

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

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

Cash and Cash Equivalents

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

Materials and Supplies

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

Water System Facilities Charge

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

Accrued Vacation and Compensatory Pay

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

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

Risk Management

The Board is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims in excess of this commercial coverage was not significant in any of the three preceding years. The Board is partially self-insured for workers' compensation claims and judgements as discussed in Note 9.

Revenue Recognition

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

Pension Expense

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

2. Deposits and Investments

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

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

At June 30, 1999 and 1998, cash, bank repurchase agreements, time certificates of deposit and government agency discount notes of approximately \$271,983,000 and \$245,878,000, respectively, were held by the City on behalf of the Board. The original maturity of these investments are less than one-year therefore the Board accounts for these investments at cost. The carrying value of these investments as of June 30, 1999 and 1998, respectively, approximated their market value.

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

Investments designated for deferred compensation of approximately \$28,012,000 and \$24,375,000 at June 30, 1999 and 1998, respectively, were in open-end mutual funds and general pools managed by the plan trustee. These investments are not evidenced by securities that exist in physical or book-entry form and therefore are not subject to categorization of credit risk.

3. Restricted Assets

At June 30, 1999 and 1998, restricted assets consisting of investments, other receivables and interest receivable were held for payment of the following purposes:

	<u>1999</u>	<u>1998</u>
Construction	\$89,501,243	\$85,747,363
Insurance reserve	640,472	607,173
Bond interest and redemption	884,127	872,183
Renewals and replacements	2,000,601	2,001,213
	<u>-----</u>	<u>-----</u>
Total	<u>\$93,026,443</u>	<u>\$89,227,932</u>
	<u>=====</u>	<u>=====</u>

4. Long-Term Debt

At June 30, 1999 and 1998, long-term debt consisted of the following:

	<u>1999</u>	<u>1998</u>
General Obligation Water Bonds, 4.75 percent to 9.5 percent	\$38,900,000	\$42,240,000
Water System Revenue Bonds, 4.35 percent to 5.8 percent	17,230,000	17,620,000
	-----	-----
	56,130,000	59,860,000
Less-Current portion	3,260,000	3,730,000
	-----	-----
Noncurrent portion	\$52,870,000	\$56,130,000
	=====	=====

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

Bond principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2000	\$ 3,260,000	\$ 3,151,000	\$ 6,411,000
2001	2,610,000	2,943,000	5,553,000
2002	2,765,000	2,784,000	5,549,000
2003	2,495,000	2,655,000	5,150,000
2004	2,080,000	2,529,000	4,609,000
Thereafter	42,920,000	19,582,000	62,502,000
	-----	-----	-----
	\$56,130,000	\$33,644,000	\$89,774,000
	=====	=====	=====

In December 1992, the Board issued \$38,425,000 in general obligation water bonds to advance refund \$19,375,000 of the Board's outstanding 1990 Series bonds and \$9,150,000 of its outstanding 1987 Series bonds with the remainder to fund the Board's capital improvement projects. An irrevocable trust with an escrow agent was funded to provide for all future debt service payments on the 1990 and 1987 Series bonds. As a result, the 1990 and 1987 Series bonds were considered to be defeased and the liabilities for those bonds were removed from the Board's financial statements in fiscal 1993. At June 30, 1999 and 1998, the outstanding defeased bonds amounted to \$19,375,000.

5. Billing and Collection Services

The Board has an agreement with the Department of Wastewater Management, City and County of Honolulu (DWM) to provide certain services through June 30, 1999, relating to the billing and collection of sewer service charges. The fees for such services amounted to approximately \$1,088,000 in 1999 and 1998. In 1999, the Board entered into a new five-year agreement for these services whereby the fees were reduced to \$100,000 for fiscal year 2000 and the remaining years to be negotiated based on a study of the incremental costs incurred by the Board to provide these services.

6. Employee Benefit Plans

Defined Benefit Pension Plan

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

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

The Board's policy is to fund its required contribution annually. The payroll for employees of the Board covered by the System for the year ended June 30, 1999, 1998 and 1997 was approximately \$24,846,000, \$25,245,000 and \$23,404,000, respectively; the Board's total payroll was approximately \$25,119,000, \$25,957,000 and \$24,223,000, respectively. The contribution requirement for the year ended June 30, 1999, 1998 and 1997 was approximately \$1,560,000, \$3,248,000 and \$3,312,000, respectively, which represented approximately 6.3, 12.9 and 14 percent of the Board's covered payroll for these fiscal years respectively. The Board's contribution requirement for these fiscal years represented approximately 1 percent of the total contribution requirement for all employers.

Act 327 of the 1997 State Legislative Session changed, among other things, the System's funding method from the frozen initial liability method to the entry age normal cost method. Act 151 of the 1998 State

Legislative Session effected certain other changes including a change in the salary growth assumption which reduced the Board's fiscal 1999 contributions by approximately \$724,000.

Measurement of assets and actuarial valuations are made for the entire System and are not separately computed for individual participating employers such as the Board. In 1997, the System adopted GASB No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". This Statement requires the reporting of investments at fair value. The following data pertains to the entire system and is provided as of June 30, 1998 from the disclosures contained in the system's CAFR for the year then ended, the most recent report available:

	<u>1998</u>
Pension benefit obligation	\$ 9,615,753,400
Net assets available for benefits (at fair value)	(9,051,781,611)

Unfunded pension benefit obligation	\$ 563,971,789 =====

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

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 1998 CAFR.

Early Retirement Incentive

Act 212 of the 1994 regular session of the State legislature authorized an early retirement incentive to state and county employees with at least 25 years of service as of December 31, 1994. Qualifying employees received two additional years of service credits for purposes of calculating their retirement benefits. The retirement contribution liability related to this program as of June 30, 1999 and 1998 amounted to \$801,600 and \$1,068,800, respectively. This liability will be paid in equal installments of \$267,200 over the remaining three years.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State of Hawaii Public Employees Health Fund provides certain health care and life insurance benefits, in accordance with State statutes, to all employees who retire from the Board on or after attaining age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory plan and age 55 with at least 5 years of service under the contributory plan. Currently 533 Board retirees and surviving dependents are eligible to receive health care benefits and 422 Board retirees are eligible to receive life insurance benefits. Retirees

credited with at least 10 years of service excluding sick leave credit qualify for free medical insurance premiums; however, retirees with less than 10 years must assume a portion of the monthly premiums. All disability retirees who retired after June 30, 1984, with less than 10 years of service also qualify for free medical insurance premiums. Free life insurance coverage and dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are based upon negotiated collective bargaining agreements, and are funded by the Board as accrued. The amounts allocated to the Board for years ended June 30, 1999 and 1998 aggregated approximately \$2,256,000 and \$2,344,000, respectively, and are included as expenses in the accompanying financial statements.

Deferred Compensation Plan

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

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

Retroactive Pay

In 1996, the City and other governmental agencies entered into negotiations with the United Public Workers Union and the Hawaii Governmental Employees Association for matters related to certain bargaining units that include Board employees. In 1998, these negotiations, which comprised of retroactive pay raises of approximately \$3.2 million, were complete pending funding by the legislature. At the end of the 1998 legislative session, the funding proposal (Act 100) was not approved, therefore, no accrual was made as of June 30, 1998. In the 1999 legislative session, Act 100 was approved and the retroactive pay fully funded. Accordingly, the Board accrued retroactive pay raises and related fringe benefits of approximately \$4.0 million as of June 30, 1999. These amounts will be fully paid by October 31, 1999.

7. Contributed Capital

The changes in Board's contributions in aid of construction accounts in fiscal years 1999 and 1998 were as follows:

	Contributions in Aid of Construction		
	<u>Government</u>	<u>Other</u>	<u>Total</u>
Balance, July 1, 1997	\$ 88,899,655	\$338,228,122	\$427,127,777
Customer advances for plant construction	-	7,334,914	7,334,914
Contribution of utility plant in service	5,471,940	7,880,169	13,352,109
Balance, June 30, 1998	94,371,595	353,443,205	447,814,800
Customer advances for plant construction	-	4,904,766	4,904,766
Contribution of utility plant in service	11,977,142	9,263,191	21,240,333
Balance, June 30, 1999	<u>\$106,348,737</u>	<u>\$367,611,162</u>	<u>\$473,959,899</u>

8. Commitments

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. At June 30, 1999, accumulated sick leave aggregated approximately \$17,984,000.

Other commitments, primarily for utility plant construction, approximated \$132,418,000 at June 30, 1999.

9. Contingencies

Workers' Compensation Self-Insurance Liability

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

Waiahole Water Rights

The Board and the City are intervenors in a water rights case before the Supreme Court of Hawaii that will determine the allocation of waters that flow through the Waiahole Ditch. The Board is not a direct user of the ditch water; however, a decrease in ditch water flow would adversely impact the recharge of the Board's ground water sources and increase the demand on those sources. In the judgment of legal counsel, it appears reasonably possible that the final outcome of this case may have an adverse impact to the Board. The potential impact, if any, may include significant additional capital and infrastructure costs. The impact of this on future financial results of the Board is not determinable and is dependent on, among other things, the amount of water diverted from the ditch.

Safe Drinking Water Act

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

Central Administrative Services Expense (CASE) Fee

The Board is currently negotiating a CASE fee agreement with the City for treasury, personnel, purchasing and other services the City provides to the Board on an on-going basis. In 1999, the Board's seven-member board agreed to pay such a fee retroactive to July 1, 1998; however, the method for calculating the amount of this fee has not yet been determined. The Board and the City are currently evaluating the cost of these services in order to determine an appropriate fee for such services. Since management believes that this fee is currently not reasonably estimatable, no accrual has been made as of June 30, 1999.

Other Legal Matters

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

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

SUPPLEMENTAL SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998
(Excluding construction work in progress)

ASSETS

	<u>Balance</u> <u>June 30, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 1999</u>
PROPERTY, excluding				
land and land rights:				
Source of supply	\$ 30,779,217	\$ 735,520	\$ -	\$ 31,514,737
Pumping	118,069,991	5,235,373	223,928	123,081,436
Water treatment	16,359,905	124,034	-	16,483,939
Transmission and				
distribution	677,795,325	40,247,344	3,095,533	714,947,136
General	44,892,424	2,245,050	433,403	46,704,071
	-----	-----	-----	-----
	887,896,862	48,587,321	3,752,864	932,731,319
	-----	-----	-----	-----
LAND AND LAND RIGHTS:				
Source of supply	6,109,337	39,000	-	6,148,337
Pumping	538,294	-	-	538,294
Water treatment	65	-	-	65
Transmission and				
distribution	450,686	8,851	-	459,537
General	568,526	7,273,897	-	7,842,423
	-----	-----	-----	-----
	7,666,908	7,321,748	-	14,988,656
	-----	-----	-----	-----
	\$895,563,770	\$55,909,069	\$3,752,864	\$947,719,975
	=====	=====	=====	=====
OBTAINED FROM:				
Operating fund		\$33,114,568		
Bond fund		190,128		
Special expendable fund		1,629,625		
Contributions in aid:				
Government		11,711,557		
Other		9,263,191		

		\$55,909,069		
		=====		

See report of independent accountants.

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

SUPPLEMENTAL SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998
(Excluding construction work in progress)

ACCUMULATED DEPRECIATION

	<u>Balance</u> <u>June 30, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 1999</u>
PROPERTY, excluding land and land rights:				
Source of supply	\$ 14,689,001	\$ 959,377	\$ -	\$ 15,648,378
Pumping	49,140,882	4,558,593	223,928	53,475,547
Water treatment	5,975,831	776,980	-	6,752,811
Transmission and distribution	232,461,393	15,632,340	3,095,533	244,998,200
General	17,167,553	2,677,125	433,403	19,411,275
	-----	-----	-----	-----
	319,434,660	24,604,415	3,752,864	340,286,211
	-----	-----	-----	-----
LAND AND LAND RIGHTS:				
Source of supply	-	-	-	-
Pumping	-	-	-	-
Water treatment	-	-	-	-
Transmission and distribution	-	-	-	-
General	-	-	-	-
	-----	-----	-----	-----
	-	-	-	-
	-----	-----	-----	-----
	\$319,434,660	\$24,604,415	\$3,752,864	\$340,286,211
	=====	=====	=====	=====
Less - Amounts charged to jobbing contract work		1,099,645		

DEPRECIATION EXPENSE		\$23,504,770		
		=====		

See report of independent accountants.

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT

JUNE 30, 1999

	<u>Last</u>	<u>Interest</u>	<u>Bonds</u>	<u>Maturing</u>	<u>Call</u>	<u>Outstanding</u>	<u>Payable</u>
	<u>Installment</u>	<u>Rate</u>	<u>Dated</u>	<u>Serially</u>	<u>Dates (1)</u>	<u>June 30, 1999</u>	<u>Within</u>
				<u>From</u>			<u>One Year</u>
General Obligation Water Bonds:							
Series 1976	2001	5.000	09-01-76	09-01-99	09-01-86	\$ 1,100,000	\$ 370,000
Series 1978	2000	5.400	04-01-78	04-01-97	04-01-88	520,000	520,000
	1978	2003	04-01-78	04-01-01	04-01-88	1,560,000	-
Series 1990	2000	6.900	06-01-90	06-01-00	(2)	715,000	715,000
Series 1992	1999	5.000	12-01-92	12-01-99	(2)	1,245,000	1,245,000
	1992	2000	12-01-92	12-01-00	(2)	1,300,000	-
	1992	2001	12-01-92	12-01-01	(2)	1,435,000	-
	1992	2002	12-01-92	12-01-02	(2)	1,510,000	-
	1992	2003	12-01-92	12-01-03	(2)	1,590,000	-
	1992	2004	12-01-92	12-01-04	(2)	1,675,000	-
	1992	2005	12-01-92	12-01-05	(2)	1,765,000	-
	1992	2006	12-01-92	12-01-06	(2)	1,865,000	-
	1992	2007	12-01-92	12-01-07	(2)	1,975,000	-
	1992	2008	12-01-92	12-01-08	(2)	2,085,000	-
	1992	2015	12-01-92	12-01-09	(2)	18,560,000	-
						<u>38,900,000</u>	<u>2,850,000</u>
Water System Revenue Bonds:							
Series 1996	1999	4.350	03-01-96	07-01-99	(2)	410,000	410,000
	1996	2000	03-01-96	07-01-00	(2)	425,000	-
	1996	2001	03-01-96	07-01-01	(2)	445,000	-
	1996	2002	03-01-96	07-01-02	(2)	465,000	-
	1996	2003	03-01-96	07-01-03	(2)	490,000	-
	1996	2005	03-01-96	07-01-04	(2)	1,045,000	-
	1996	2006	03-01-96	07-01-06	(2)	565,000	-
	1996	2007	03-01-96	07-01-07	07-01-06	595,000	-
	1996	2009	03-01-96	07-01-08	07-01-06	1,285,000	-
	1996	2011	03-01-96	07-01-10	07-01-06	1,425,000	-
	1996	2021	03-01-96	07-01-12	07-01-06	10,080,000	-
						<u>17,230,000</u>	<u>410,000</u>
Total Long-Term Debt						<u>\$56,130,000</u>	<u>\$3,260,000</u>

(1) Call dates indicated are optional.

(2) Noncallable.

See report of independent accountants.