

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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT**

Fiscal Years Ended June 30, 2007 and 2006

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

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**Board of Water Supply
City and County of Honolulu
INTRODUCTION
Fiscal Year Ended June 30, 2007**

The Board of Water Supply of the City and County of Honolulu is pleased to present its Annual Financial Report for the fiscal year ended June 30, 2007. This introduction provides an overview of the mission, organization, and operations of the Board. The following management's discussion and analysis is intended to provide the reader with an easily understandable analysis of the Board's financial performance and to enable the reader to assess all aspects of its financial position. Financial statements presenting the financial position and results of operations of the Board in conformity with accounting principles generally accepted in the United States of America, accompanied by the independent auditors' report, follow the management's discussion and analysis.

Organization and Business

The Board of Water Supply (Board) is a semi-autonomous municipal agency created pursuant to the Revised Charter of the City and County of Honolulu (City). The Board 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 Board was established in 1929.

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

The Board consists of 13 operating units - Chief of Staff, Capital Projects, Communications, Customer Care, Finance, Human Resources, Information Technology, Legal Counsel, Field Operations, Water System Operations, Capital Projects, Security and Strategic Development. All are under the direction of the Manager and Chief Engineer, who is appointed by the Board of Directors, and the Deputy Manager and Chief Engineer.

The Board of Directors has the power to fix and adjust rates and charges for the furnishing of water and water services so that the revenues derived shall be sufficient to make the Board self-supporting. Rates and charges are determined on the basis of a recommendation by the Manager, subject to approval by the Board of Directors at a public hearing. Such rates are not subject to regulation by any other governmental body or authority.

The Board receives no revenues from taxation and depends solely upon revenues derived from its activities to pay for its operations and liquidation of indebtedness. The Board may receive funds from the federal, state, or county governments for capital improvement projects and other authorized expenditures.

**Board of Water Supply
City and County of Honolulu
INTRODUCTION (Continued)
Fiscal Year Ended June 30, 2007**

The Board services 165,069 accounts and a residential population of 902,704. The service area covers the island of O'ahu and is 596.7 square miles. The customer base includes residential, business and industrial, and agricultural users. Of the total accounts, 153,158 are residential (92.8%), representing 59.7% of the total amount received from water sales in fiscal year 2007; 11,056 are commercial and industrial (6.7%), representing 39.3% of the total amount received from water sales in fiscal year 2007; and 855 are agricultural (0.5%), representing 1.0% of the total amount received from water sales in fiscal year 2007.

The Board provides high quality water at reasonable rates, while protecting the long-term viability of O'ahu's water resources and enhancing the environment. In addition to providing potable water of 154 million gallons per day (mgd), the Board delivers approximately 8.5 mgd of recycled water to various golf courses, as well as 'Ewa and Campbell industrial park users in West O'ahu.

Mission

The mission of the Board is to improve the quality of life in the community by providing world-class water services. The Board's mission statement, "Water for Life - Ka Wai Ola," addresses the need to ensure customers continued access to safe and dependable water supplies now and into the future.

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

- **Resource sustainability** ensures the protection of natural groundwater supplies and its efficient management.
- **Economic sustainability** calls for a diversity of financial resources to be employed to support system operating and capital needs, while keeping water rates affordable.
- **Organizational sustainability** calls for a sound, well structured, efficient organization with the tools and skills necessary to provide exceptional value to the Board's customers, the community, and watersheds.

Highlights

The Board employees continued to concentrate their efforts and attention in support of the Board's mission, "Water for Life - Ka Wai Ola," with a focus on the following strategic objectives:

- The first objective, **resource sustainability**, which ensures that natural groundwater supplies are protected and managed efficiently, guided the following programs that were undertaken in fiscal year 2007 and which will continue for years to come:

**Board of Water Supply
City and County of Honolulu
INTRODUCTION (Continued)
Fiscal Year Ended June 30, 2007**

- The Board's Internal Conservation efforts have improved water loss percentages within the Board's water system from 13.5% in 2004, 12.8% in 2005 and 11.5% in 2006. Overall conservation savings have resulted in our demand remaining constant at around 155 mgd since 1990 to now, even with significant urban residential and commercial development growth occurring within our system area of service during this period of time.
- A new design contract was awarded to facilitate the expansion of the recycled water system to serve the proposed UH West O'ahu campus on the 'Ewa plains. The project upgrades the recycled water infrastructure in this area and is part of the Board's continued efforts to promote recycled water as an appropriate and more efficient alternative water source for irrigation purposes. The Board is also in negotiations with Hawaiian Electric Company (HECO) to provide high grade recycled water used for industrial purposes, known as Reverse Osmosis (RO) water.
- The Wai'anae and Ko'olauloa watershed management plans were completed and will be submitted to the City Council and State Water Commission for adoption. These plans are the regional component to long-range strategic water plans for the City. They follow the community land use plans adopted by the City as a guide for water resource management. The watershed management plans provide the strategic planning framework for watershed protection projects and the long-range capital program, ensuring that the infrastructure will meet all future water demands.
- The second strategic objective, **economic sustainability**, calls for a sound financial strategy to support the Board's operating and capital needs, while keeping water rates affordable. While operating and construction costs steadily increase, the Board continues to focus its efforts on improving its aging infrastructure and ensuring the reliability and quality of water provided to all customers in the City and County of Honolulu:
 - After 11 years of deferring water rate increases, the Board implemented a 13% water rate increase on October 1, 2006. The additional revenue is necessary to fund proactive infrastructure repair and replacement programs and to keep up with the rising cost of delivering water to customers. Additional increases are scheduled for the next four years on July 1 of each year. Despite these increases, the Board's rates continue to remain among the nations lowest for communities of similar size.
 - The Board's aggressive and proactive water main replacement program and successful leak detection program have contributed to a decrease in the number of main breaks during the past year. There were 334 broken water mains repaired this year, 23 less than last year and 96 less than in 2003. This number is below the 400-plus annual main break average experienced in the 1990s. With 2,000 miles of pipe in the Board's water system, the recent number of main breaks is also well below the national benchmark of 25-30 main breaks for every 100 miles of pipe.

**Board of Water Supply
City and County of Honolulu
INTRODUCTION (Continued)
Fiscal Year Ended June 30, 2007**

- As part of the Board's objective to better manage fieldwork and the costs associated with the maintenance of its water distribution system, the Board finalized the Computerized Maintenance Management System (CMMS) rollout to all field corporation yards. CMMS allows crew members to capture labor, vehicular/equipment, and parts and materials costs via work orders; time sheets will be automatically calculated at job completion and an integrated electronic map will be readily available so that they can make better and more informed decisions in the field.
- The Board's third objective, **organizational sustainability**, calls for a sound, well-structured, efficient organization with the tools and skills necessary to provide exceptional value to customers, the community, and watersheds. These programs and events characterize ongoing efforts during this fiscal year:
 - The Board continues to emphasize the importance of fostering a work environment that encourages open communication and collaborative problem solving - key components to building an efficient and healthy workforce. Employee communications programs included, employee quarterly and annual meetings, monthly "Brown Bag Lunches with the Manager," and the Field Office Hours program where the Manager visited the five corporation yards located around the island each quarter.
 - Employee recognition programs are an important part of the Board's human resources development and included recognizing outstanding employees in the annual BWS Employees of the Year program and acknowledging employees who have dedicated many years to public service, seven Board employees received 35-year service awards, and 29 employees received 25-year service awards.
 - The Board continues to encourage professional development among its employees by conducting and coordinating classes, workshops, conferences, seminars, and career development training sessions. Spanning a wide range of informational and developmental subjects, these classes cover job-related skills and supervisory management, retirement and financial planning, drug abuse, workplace violence and sexual harassment prevention, employee assistance programs, and orientation sessions on new collective bargaining agreements.



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INDEPENDENT AUDITORS' REPORT

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

We have audited the statements of net assets of the Board of Water Supply (the Board), a component unit of the City and County of Honolulu, as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of the Board'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audits.

The Management's Discussion and Analysis information on pages 9 - 15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nishihama & Kishida, CPAs, Inc.

Honolulu, Hawaii
November 30, 2007

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2007**

This section presents the management's discussion and analysis of the Board's financial condition and activities for the fiscal year ended June 30, 2007. This information should be read in conjunction with the financial statements.

Financial Highlights

After 11 years of deferring water rate increases, the Board determined that rate increases were necessary to meet rising costs of delivering water to customers and to continue its proactive infrastructure repair and replacement programs. Water rates increased by 13%, approximately \$3 more on monthly water charges for an average single-family residential customer, effective October 1, 2006.

The Board still maintains a relatively strong financial performance with a manageable capital program. However, Management continues to carefully evaluate the Board's finances to ensure optimum performance. Outstanding debt continues to be reasonable, cash reserves are healthy, and all debt covenants were exceeded. Key financial highlights are listed below:

- Total cash and investments are \$212.1 million at June 30, 2007. This represents an increase of \$103.6 million from June 30, 2006. This increase was primarily attributable to receipt of the Series 2006A and Series 2006B Revenue Bonds proceeds for construction of its water system infrastructure.
- Total assets at year-end are \$1.38 billion, which exceeds liabilities by \$978 million.
- The Board's unrestricted current assets at June 30, 2007 are 3.8 times its related current liabilities compared to 3.1 at June 30, 2006.
- The Board's debt to equity ratio is 34.8% at June 30, 2007, indicating additional capacity to issue debt.
- Operating revenues for fiscal year 2007 are \$116.6 million, an increase over the \$103.0 million reported for the fiscal year 2006. This increase is attributable to water rate increases.
- Net assets increased \$3.2 million in fiscal year 2007, from \$975.3 million at the end of fiscal year 2006 to \$978.5 million at the end of fiscal year 2007. This was primarily due to an increase to operating revenues of \$13.5 million, an increase to interest and investment income of \$7.2 million, a decrease to operating expenses of \$2.5 million, offset by an increase to interest expense of \$5.7 million from the previous year.

The second phase of the comprehensive cost of service study to analyze water systems facilities charges (WSFC) continues. These fees are levied against all new developments and residential properties requiring water from the Board's systems. The Board is carefully evaluating the possibility of increases to the WSFC for the first time in more than a decade.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2007**

Overview of Financial Report

The Board is a semi-autonomous unit of the City and County of Honolulu. 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 Board's financial condition and performance. Summary financial data, key financial and operational indicators used in the Board's annual report, budget, bond resolutions, and other management tools were used for this analysis.

The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and notes to the financial statements. The statement of net assets presents the resources and obligations of the Board at June 30, 2007. The statement of revenues, expenses and changes in net assets presents the results of operations for the year then ended, and the resultant ending net asset balance.

The statement of cash flows presents 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 Board's significant accounting policies, significant account balances, related party transactions, employee benefit plans, commitments, contingencies, and other significant events. Supplementary information on outstanding bonds and net revenue requirements are also included.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2007**

Financial Analysis

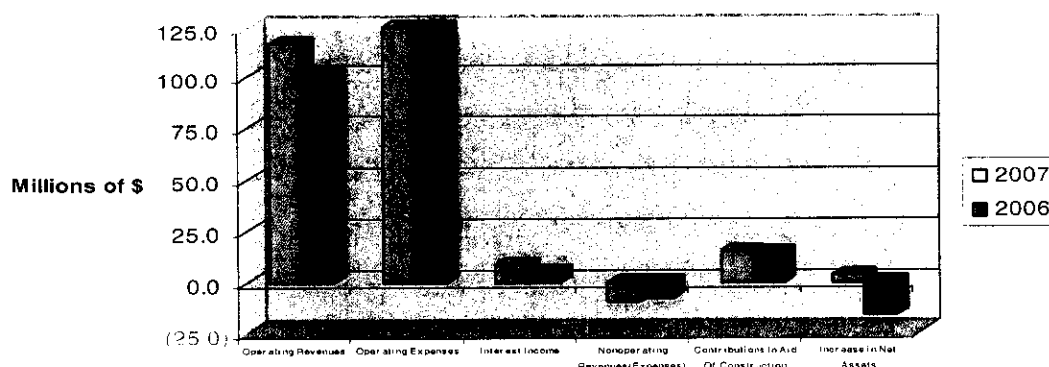
Results of Operations

**CONDENSED STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS**

	June 30,		%
	2007	2006	Variance
	(in thousands)		
Operating revenues	\$ 116,561	\$ 103,009	13.2%
Operating expenses			
Depreciation	38,950	37,745	3.2%
Administrative and general	32,227	31,245	3.1%
Power and pumping	23,115	22,648	2.1%
Other operating expenses	32,975	38,122	-13.5%
Total operating expenses	127,267	129,760	-1.9%
Operating loss	(10,706)	(26,751)	-60.0%
Nonoperating revenues(expenses)			
Interest income	8,479	4,519	87.6%
Others	(9,485)	(7,456)	27.2%
Total nonoperating revenues (expenses)	(1,006)	(2,937)	-65.7%
Contributions in aid of construction	14,938	13,554	10.2%
Increase (decrease) in net assets	\$ 3,226	\$ (16,134)	120.0%

The increase in net assets for the fiscal year ended June 30, 2007 was \$3.2 million, which is \$19.3 million greater than last year's decrease of \$16.1 million. The changes in revenues and expenses are explained below.

Statements of Revenues, Expenses and Changes in Net Assets



**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2007**

Operating revenues for fiscal year 2007 were \$116.6 million, an increase of \$13.6 million from fiscal year 2006 revenues of \$103.0 million. This was attributable to the first water rate increase in eleven years. The Board approved a 13% increase to the water rates effective October 1, 2006.

Total operating expenses decreased to \$127.3 million in fiscal year 2007, a decrease of \$2.5 million from fiscal year 2006. Factors contributing to this change are explained below.

Depreciation expense increased by \$1.2 million from fiscal year 2006. This is attributable to \$144.7 million in property, plant and equipment being added to capital assets over the last two fiscal years. Administrative and general expense increased by \$1.0 million from fiscal year 2006. This was attributable to increased insurance cost and professional services.

In the other operating expense category, road repaving decreased \$1.2 million and maintenance and repair of infrastructure and buildings decreased \$3.2 million.

Other non-operating revenues increased by \$1.9 million due primarily to higher investment income of \$7.1 million, offset by higher interest expense of \$5.7 million.

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 Board'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 Board realized contributions in aid of construction of \$14.9 million in fiscal year 2007 compared to \$13.6 million in fiscal year 2006.

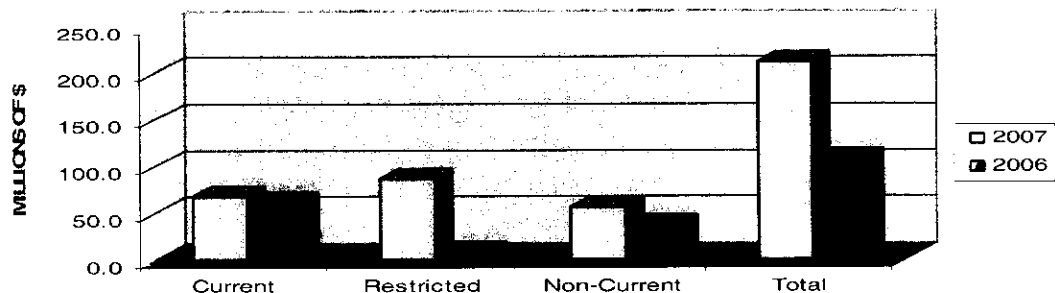
**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2007**

Financial Condition

CONDENSED STATEMENTS OF NET ASSETS

	June 30,		%
	2007	2006	Variance
	(in thousands)		
Current Assets			
Cash and equivalents	\$ 34,075	\$ 10,147	235.8%
Investments	34,746	51,663	-32.7%
Other current assets	26,071	24,884	4.8%
Restricted Assets			
Cash and equivalents	37,160	7,516	394.4%
Investments	49,036	2,047	2295.5%
Investments	57,107	37,167	53.6%
Other assets	3,230	2,398	34.7%
Property, plant and equipment-net of accumulated depreciation	<u>1,142,931</u>	<u>1,109,371</u>	3.0%
Total assets	\$ <u>1,384,356</u>	\$ <u>1,245,193</u>	11.2%
Current liabilities	\$ 25,268	\$ 27,827	-9.2%
Other liabilities	62,114	30,492	103.7%
Bonds payable, noncurrent	<u>318,451</u>	<u>211,577</u>	50.5%
Total liabilities	<u>405,833</u>	<u>269,896</u>	50.4%
Net Assets			
Invested in capital assets, net of related debt	863,367	890,159	-3.0%
Restricted for capital activity and debt service	72,238	4,885	1378.8%
Unrestricted	<u>42,918</u>	<u>80,253</u>	-46.5%
Total net assets	<u>978,523</u>	<u>975,297</u>	0.3%
Total liabilities and net assets	\$ <u>1,384,356</u>	\$ <u>1,245,193</u>	11.2%

Cash and Investments



**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2007**

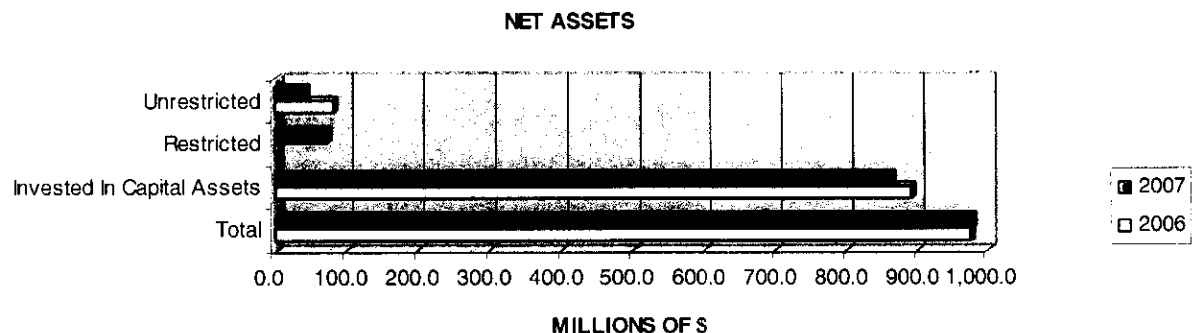
The Board's total cash and investments increased by \$103.6 million in 2007 from \$108.5 million in 2006 to \$212.1 million in 2007. In July 2006, the Board issued \$213.8 million in water system revenue bonds, of which \$105 million will be used to fund the Board's capital improvement program and the balance used to refund existing debt.

Effective October 1, 2006, the Board increased its water rates by 13% with subsequent scheduled annual increases totaling 35% through June 30, 2011.

The Board's current ratio (current assets divided by current liabilities) is 4.0 and 2.7 for June 30, 2007 and 2006, respectively. The Board's unrestricted current assets at June 30, 2007 are 3.8 times its related current liabilities compared to 3.1 times at June 30, 2006. The ratio increases are attributable to greater cash and investment balances resulting from the receipt of bond proceeds and to a lesser extent the increased revenues due to the water rate increases.

The Board issues long-term bonds to finance part of its capital improvement program. The Board's debt to equity ratio has increased to 34.8% at June 30, 2007, compared to 22.7% at June 30, 2006. As indicated above, the Board issued additional revenue bonds on July 7, 2006. This issue, along with future anticipated financing, were considered in a completed cost of service study, which has resulted in the Board's amended schedule of rates and charges.

Net assets increased \$3.2 million or .3% from \$975.3 in fiscal year 2006 to \$978.5 million at the end of fiscal year 2007. This reflects the increases in operating revenues, investment income, and contributions in aid of construction and decrease in operating expenses, offset by increased interest costs.



Capital Assets and Long-Term Debt

During the fiscal year, the Board capitalized \$57.2 million to its utility plant in service. Major assets added were the Hale'iwa, Waialua, and Mililani Wells I granular activated carbon equipment and structure improvements, \$12.1 million; Manana Corporation Yard building renovations, \$9.7 million; Computerized Maintenance Management System software and implementation costs, \$3.6 million; and various transmission and distribution mains, \$21.9 million.

All outstanding debt has been assigned ratings of Aa3 from Moody's Investors Service, AA from Standard and Poor's, and AA from Fitch.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2007**

Rate Covenant

The Board is required by its bond resolution to, among other things, fix, charge, and collect such rates and other charges in each fiscal year to meet the net revenue requirement for such fiscal year. The Board's revenue bond debt service coverage for the fiscal year ended June 30, 2007 is 1.85. The bond covenant for debt service coverage is 1.20.

Request for Information

This financial report is designed to provide a general overview of the Board'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.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET ASSETS
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 34,075,029	\$ 10,147,357
Investments	34,746,277	51,662,547
Interest receivable	1,576,722	759,943
Customer receivables		
Billed, less allowances for uncollectible accounts of		
\$1,188,000 in 2007 and \$1,327,100 in 2006	6,613,269	6,628,523
Unbilled	9,814,805	7,109,725
Other receivables, less allowances for uncollectible		
accounts of \$510,868 in 2007 and 2006	2,549,242	5,564,480
Materials and supplies	4,813,509	4,708,631
Prepaid expenses	<u>703,253</u>	<u>112,496</u>
Total current assets	<u>94,892,106</u>	<u>86,693,702</u>
RESTRICTED ASSETS		
Cash and cash equivalents	37,160,465	7,515,952
Investments	<u>49,036,246</u>	<u>2,047,525</u>
Total restricted assets	<u>86,196,711</u>	<u>9,563,477</u>
INVESTMENTS	<u>57,106,745</u>	<u>37,166,857</u>
BOND ISSUE COSTS		
Net of accumulated amortization of \$471,805 in 2007		
and \$337,721 in 2006	<u>3,229,920</u>	<u>2,398,363</u>
CAPITAL ASSETS		
Land	32,373,064	32,373,064
Infrastructure	1,134,210,892	1,112,105,648
Building and improvements	138,134,200	125,640,996
Equipment and machinery	206,648,819	189,705,707
Construction work in progress	<u>202,689,932</u>	<u>183,540,855</u>
	1,714,056,907	1,643,366,270
Less accumulated depreciation	<u>571,125,761</u>	<u>533,995,113</u>
Capital assets - net	<u>1,142,931,146</u>	<u>1,109,371,157</u>
TOTAL	<u>\$ 1,384,356,628</u>	<u>\$ 1,245,193,556</u>

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET ASSETS (Continued)
June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable from current assets		
Accounts payable	\$ 16,024,819	\$ 15,316,435
Contracts payable, including retainages	7,324,343	10,680,002
Accrued vacation, current portion	1,918,451	1,830,771
	<u>25,267,613</u>	<u>27,827,208</u>
 Payable from restricted assets		
Contracts payable, including retainages	5,633,296	94,546
Accrued interest payable	7,737,167	3,995,889
Bonds payable, current portion	5,690,000	3,170,000
Notes payable, current portion	800,336	278,000
Other	587,947	587,947
	<u>20,448,746</u>	<u>8,126,382</u>
 Total current liabilities	<u>45,716,359</u>	<u>35,953,590</u>
 OTHER LIABILITIES		
Customer advances	8,210,019	7,636,443
Accrued vacation, noncurrent portion	4,697,998	4,779,448
Accrued workers' compensation	1,650,556	2,230,713
Notes payable, noncurrent portion	15,254,317	6,793,039
Other	11,853,183	926,025
	<u>41,666,073</u>	<u>22,365,668</u>
 Total other liabilities	<u>41,666,073</u>	<u>22,365,668</u>
 BONDS PAYABLE - NONCURRENT	<u>318,450,713</u>	<u>211,577,375</u>
 Total liabilities	<u>405,833,145</u>	<u>269,896,633</u>
 NET ASSETS		
Invested in capital assets - net of related debt	863,367,461	890,158,936
Restricted for capital activity and debt service	72,238,301	4,885,095
Unrestricted	42,917,721	80,252,892
	<u>978,523,483</u>	<u>975,296,923</u>
 Total net assets	<u>978,523,483</u>	<u>975,296,923</u>
 TOTAL	\$ <u>1,384,356,628</u>	\$ <u>1,245,193,556</u>

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Fiscal Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Water sales	\$ 113,630,379	\$ 100,876,964
Other, principally contract and service fees	<u>2,930,778</u>	<u>2,131,629</u>
Total operating revenues	<u>116,561,157</u>	<u>103,008,593</u>
OPERATING EXPENSES		
Depreciation	38,949,810	37,744,551
Administrative and general	32,226,575	31,244,916
Power and pumping	23,115,493	22,648,427
Maintenance	8,629,303	14,568,900
Transmission and distribution	14,085,170	13,438,010
Water reclamation	4,732,973	3,309,121
Customers' accounting and collection	3,403,356	3,340,041
Central administrative services expense fees	1,874,329	3,300,000
Water treatment	181,462	107,756
Source of supply	<u>68,245</u>	<u>58,176</u>
Total operating expenses	<u>127,266,716</u>	<u>129,759,898</u>
LOSS FROM OPERATIONS	<u>(10,705,559)</u>	<u>(26,751,305)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	8,478,871	4,519,164
Interest expense, net of interest capitalized of \$4,604,027 in 2007 and \$4,930,671 in 2006	(10,240,982)	(4,554,168)
Realized and unrealized gain (loss) on investments	2,431,325	(794,283)
Loss from disposal of capital assets	(2,368,732)	(2,505,891)
Other	<u>693,158</u>	<u>397,951</u>
Total nonoperating expenses	<u>(1,006,360)</u>	<u>(2,937,227)</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>14,938,479</u>	<u>13,554,001</u>
INCREASE (DECREASE) IN NET ASSETS	3,226,560	(16,134,531)
NET ASSETS AT BEGINNING OF FISCAL YEAR	<u>975,296,923</u>	<u>991,431,454</u>
NET ASSETS AT END OF FISCAL YEAR	\$ <u>978,523,483</u>	\$ <u>975,296,923</u>

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 113,341,488	\$ 103,668,173
Payments to suppliers for goods and services	(55,387,938)	(55,869,382)
Payments to employees for services	(31,158,801)	(31,077,035)
Other revenues - net	<u>11,620,316</u>	<u>397,951</u>
Net cash provided by operating activities	<u>38,415,065</u>	<u>17,119,707</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(251,852,808)	(123,933,770)
Proceeds from maturity of investments	204,271,794	156,315,151
Interest on investments	<u>7,662,092</u>	<u>4,660,828</u>
Net cash provided by (used in) investing activities	<u>(39,918,922)</u>	<u>37,042,209</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets - net of contributions in aid of construction of \$6,082,106 and \$5,418,075 in 2007 and 2006	(54,214,527)	(51,280,776)
Proceeds from sale of capital assets	158,736	174,954
Customer advances for capital projects	573,576	2,924,170
Principal paid on bonds	(3,170,000)	(4,120,000)
Interest paid on bonds	(11,446,388)	(9,195,460)
Proceeds from bond issuance	217,880,371	--
Payments in connection with bond issuance	(2,120,102)	--
Payments to refund outstanding debt	(103,703,706)	--
Proceeds from notes payable	11,361,522	2,283,516
Interest paid on notes payable	17,875	(93,286)
Principal paid on notes payable	<u>(261,315)</u>	<u>(74,124)</u>
Net cash provided by (used in) capital and related financing activities	<u>55,076,042</u>	<u>(59,381,006)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	53,572,185	(5,219,090)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	<u>17,663,309</u>	<u>22,882,399</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR (including \$37,160,465 and \$7,515,952 in 2007 and 2006 in restricted accounts)	\$ <u>71,235,494</u>	\$ <u>17,663,309</u>

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (10,705,559)	\$ (26,751,305)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation	40,228,312	38,827,552
Provision for doubtful accounts	56,726	91,522
Provision for workers' compensation	(580,157)	(473,867)
Other revenues	693,158	397,951
Change in operating assets and liabilities		
Customer receivables	(2,746,552)	660,894
Materials and supplies	(104,878)	(551,689)
Other receivables	(529,843)	(92,836)
Prepaid expenses and other	(590,757)	68,701
Accounts and contracts payable	1,761,227	5,023,850
Accrued vacation	6,230	66,300
Other liabilities	<u>10,927,158</u>	<u>(147,366)</u>
Net cash provided by operating activities	\$ <u>38,415,065</u>	\$ <u>17,119,707</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions of capital assets from government agencies, developers and customers that are recorded as contributions in aid of construction at their cost or estimated cost	\$ 6,082,106	\$ 5,418,075
Capital assets included in accounts and contracts payable	\$ 11,187,940	\$ 10,057,692
Interest capitalized in capital assets	\$ 4,604,027	\$ 4,930,671
Capital assets financed by the seller	\$ --	\$ 2,350,000
Amortization of bond issue costs	\$ 134,084	\$ 92,497
Amortization of bond premium/discount	\$ (560,852)	\$ (221,640)
Amortization of deferred loss on refunding	\$ 101,986	\$ 255,089

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) **Operations** - The Charter of the City and County of Honolulu provides for the operation of the Board of Water Supply (Board) as a semi-autonomous body of the City and County of Honolulu government (City). The Board has full and complete authority to manage, control and operate the City's water system and related properties.
- (2) **Financial Statement Presentation** - The Board is a component unit of the City (the primary government).

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

- (3) **Basis of Accounting** - 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 Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Board'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.

- (4) **Use of Estimates** - The preparation of 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. Actual results could differ from those estimates.
- (5) **Regulation and Water Rates** - Article VII of the Revised Charter of the City and County of Honolulu (City Charter) states that the Board's seven-member board has the authority to establish and adjust water rates and charges so that the revenues derived shall be sufficient to make the Board self-supporting. The Board is required to follow certain procedures that include holding public hearings before implementing changes in the water rate schedules.
- (6) **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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (7) **Investments** - Investments are stated at fair value. Fair value has been determined based on quoted market prices. The cost of securities sold is generally determined by the weighted average method.
- (8) **Materials and Supplies** - Materials and supplies are stated at the lower of weighted average cost (which approximates the first-in, first-out method) or market. The cost of materials and supplies are recorded as expenses when consumed rather than when purchased.
- (9) **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 Board'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 loans 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 certificate.
- (10) **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. 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.

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

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The ranges of estimated economic useful lives of capital assets 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	5 to 50 years

- (11) ***Bond Issue Costs, Original Issue Discount or Premium and Deferred Loss on Refundings*** - Bond issue costs are deferred and are amortized over the life of the respective issue on a straight-line basis. Original issue discount or premium and deferred loss on refundings are also amortized using the straight-line method over the terms of the respective issues and are added to or offset against the bonds payable in the statement of net assets.

- (12) ***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 Board accrues a liability for compensated absences and additional amounts for certain salary-related payments including payroll taxes and fringe benefits.

- (13) ***Water System Facilities Charge*** - A water system facilities charge is levied against all new developments and residential properties 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 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.

- (14) ***Net Assets*** - Net assets comprise the various net earnings from operating and nonoperating revenues, expenses, and contributions in aid of construction. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. 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 assets 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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (15) **Revenue Recognition** - The Board's policy is to bill customers on a cyclical monthly or bi-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.
- (16) **Pension Expense** - The Board'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 Board's policy is to fund pension costs accrued.
- (17) **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.

A trust fund (annuity contract) 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 Board has excluded the Plan's assets and liabilities from the financial statements because the Board and the City do not have significant administrative involvement in the Plan or perform the investment function for the Plan.

- (18) **Risk Management** - The Board is exposed to various risks of loss from: (1) torts, (2) theft of, damage to, and destruction of assets, (3) employee injuries and illnesses, (4) natural disasters, and (5) employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The Board is partially self-insured for workers' compensation claims and judgments.
- (19) **Reclassifications** - Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE B - 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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE B - CASH AND INVESTMENTS (Continued)

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 financial institutions authorized to do business in the State of Hawaii.

The Board's portfolio is managed by various investment managers. These investments consist mainly of U.S. government securities, which are recorded at fair value based on quoted market prices.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Board's investment policy includes:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Credit Risk - Because the Board invests in obligations of the U.S. government, 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 Board will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All investments are registered in the name of the Board and are held in the possession of an investment management company. At June 30, 2007, approximately \$41,489,000 in cash and cash equivalents and all investments were held by the investment management company. Cash, cash equivalents and investments held by the investment management company are insured up to \$500,000, of which up to \$100,000 may be uninvested cash, by the Securities Investor Protection Corporation (SIPC). Excess coverage purchased from a private insurer by the investment management company provides additional protection up to the full net equity value of each account.

At June 30, 2007 and 2006, investments consisted of the following:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
U. S. government treasury obligations - short-term	\$ 12,090,332	\$ 11,951,472	\$ 29,360,117	\$ 29,233,274
U.S. government agencies short-term	64,266,942	64,868,210	24,689,792	24,476,798
U. S. government treasury obligations	34,044,334	33,956,838	20,403,435	20,049,558
U.S. government agencies	<u>30,181,859</u>	<u>30,112,748</u>	<u>17,324,218</u>	<u>17,117,299</u>
	<u>\$ 140,583,467</u>	<u>\$ 140,889,268</u>	<u>\$ 91,777,562</u>	<u>\$ 90,876,929</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE B - CASH AND INVESTMENTS (Continued)

At June 30, 2007, the maturities of the investments were as follows:

	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U. S. government treasury obligations - short-term	\$ 11,951,472	\$ 11,951,472	\$ --	\$ --	\$ --
U.S. government agencies short-term	64,868,210	64,868,210	--	--	--
U. S. government treasury obligations	33,956,838	--	33,956,838	--	--
U.S. government agencies	30,112,748	--	30,112,748	--	--
	<u>\$ 140,889,268</u>	<u>\$ 76,819,682</u>	<u>\$ 64,069,586</u>	<u>\$ --</u>	<u>\$ --</u>

The investments are reflected in the statements of net assets as of June 30, 2007 and 2006 were as follows:

	2007	2006
Investments		
Unrestricted - current	\$ 34,746,277	\$ 51,662,547
Unrestricted - noncurrent	57,106,745	37,166,857
Restricted	<u>49,036,246</u>	<u>2,047,525</u>
Total	<u>\$ 140,889,268</u>	<u>\$ 90,876,929</u>

NOTE C - RESTRICTED ASSETS

At June 30, 2007 and 2006, restricted assets were held for the following purposes:

	2007	2006
Construction, renewals, and replacements	\$ 62,475,083	\$ 2,205,285
Debt service	<u>23,721,628</u>	<u>7,358,192</u>
	<u>\$ 86,196,711</u>	<u>\$ 9,563,477</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE D - CAPITAL ASSETS

Capital assets activity during 2007 and 2006, were as follows:

	Balance July 1, 2006	Additions	Transfers	Retirements	Balance June 30, 2007
Depreciable assets					
Infrastructure	\$ 1,112,105,648	\$ 6,180,750	\$ 18,805,032	\$ (2,880,538)	\$ 1,134,210,892
Buildings and improvements	125,640,996	--	12,493,204	--	138,134,200
Equipment and machinery	<u>189,705,707</u>	<u>3,673,155</u>	<u>16,014,551</u>	<u>(2,744,594)</u>	<u>206,648,819</u>
Total depreciable assets	1,427,452,351	9,853,905	47,312,787	(5,625,132)	1,478,993,911
Less accumulated depreciation	<u>(533,995,113)</u>	<u>(40,228,312)</u>	<u>--</u>	<u>3,097,664</u>	<u>(571,125,761)</u>
Total depreciable assets - net	893,457,238	(30,374,407)	47,312,787	(2,527,468)	907,868,150
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	<u>183,540,855</u>	<u>71,285,240</u>	<u>(52,136,163)</u>	<u>--</u>	<u>202,689,932</u>
Capital assets - net	\$ <u>1,109,371,157</u>	\$ <u>40,910,833</u>	\$ <u>(4,823,376)</u>	\$ <u>(2,527,468)</u>	\$ <u>1,142,931,146</u>

	Balance July 1, 2005	Additions	Transfers	Retirements	Balance June 30, 2006
Depreciable assets					
Infrastructure	\$ 1,045,626,963	\$ 5,068,794	\$ 64,705,366	\$ (3,295,475)	\$ 1,112,105,648
Buildings and improvements	121,950,772	359,632	3,330,592	--	125,640,996
Equipment and machinery	<u>179,957,606</u>	<u>2,887,461</u>	<u>11,223,670</u>	<u>(4,363,030)</u>	<u>189,705,707</u>
Total depreciable assets	1,347,535,341	8,315,887	79,259,628	(7,658,505)	1,427,452,351
Less accumulated depreciation	<u>(500,145,221)</u>	<u>(38,827,552)</u>	<u>--</u>	<u>4,977,660</u>	<u>(533,995,113)</u>
Total depreciable assets - net	847,390,120	(30,511,665)	79,259,628	(2,680,845)	893,457,238
Land	32,300,079	--	72,985	--	32,373,064
Construction work in progress	<u>197,150,304</u>	<u>72,117,622</u>	<u>(85,727,071)</u>	<u>--</u>	<u>183,540,855</u>
Capital assets - net	\$ <u>1,076,840,503</u>	\$ <u>41,605,957</u>	\$ <u>(6,394,458)</u>	\$ <u>(2,680,845)</u>	\$ <u>1,109,371,157</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE D - CAPITAL ASSETS (Continued)

Depreciation of \$1,278,502 and \$1,083,001 was allocated to various functions and not to depreciation expense in fiscal year 2007 and 2006, respectively.

The Board received \$158,736 and \$174,954 in proceeds from the sale of capital assets in fiscal year 2007 and 2006, respectively.

NOTE E - ACCRUED VACATION

At June 30, 2007 and 2006, accrued vacation consisted of the following:

	Beginning of Year	Additions	Reductions	End of Year	Current Portion	Noncurrent Portion
2007						
Accrued vacation	\$ <u>6,610,219</u>	\$ <u>1,924,681</u>	\$ <u>(1,918,451)</u>	\$ <u>6,616,449</u>	\$ <u>1,918,451</u>	\$ <u>4,697,998</u>
2006						
Accrued vacation	\$ <u>6,543,919</u>	\$ <u>1,897,071</u>	\$ <u>(1,830,771)</u>	\$ <u>6,610,219</u>	\$ <u>1,830,771</u>	\$ <u>4,779,448</u>

NOTE F - BONDS PAYABLE

At June 30, 2007 and 2006, bonds payable consisted of the following:

	<u>2007</u>	<u>2006</u>
Water System Revenue Bonds, Series 2001, annual principal due ranging from \$810,000 to \$1,535,000 through July 1, 2021, with interest ranging from 4% to 5.5%.	\$ 17,280,000	\$ 62,415,000
Water System Revenue Bonds, Series 2002, annual principal due commencing July 1, 2003, ranging from \$1,000,000 to \$3,300,000 through July 1, 2031, with interest at the monthly auction rates (3.4% to 3.65% per annum at June 30, 2006).	--	<u>50,400,000</u>
Balance forward	\$ <u>17,280,000</u>	\$ <u>112,815,000</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE F - BONDS PAYABLE (Continued)

	<u>2007</u>	<u>2006</u>
Balance carried forward	\$ 17,280,000	\$112,815,000
Water System Revenue Bonds, Series 2004, annual principal due commencing July 1, 2005, ranging from \$1,965,000 to \$6,245,000 through July 1, 2033, with interest ranging from 2% to 5%.	88,075,000	98,110,000
Water System Revenue Bonds, Series 2006A, annual principal due commencing July 1, 2012, ranging from \$975,000 to \$11,965,000 through July 1, 2036, with interest ranging from 4% to 5%.	165,195,000	--
Water System Revenue Bonds, Series 2006B, annual principal due commencing July 1, 2007, ranging from \$2,335,000 to \$4,455,000 through July 1, 2021, with interest ranging from 4.5% to 5.25%.	<u>48,610,000</u>	<u>--</u>
	319,160,000	210,925,000
Add unamortized premium	7,483,172	4,340,252
Less unamortized discount	(140,433)	(517,877)
Less deferred loss on refunding	(2,362,026)	--
Less current portion	<u>(5,690,000)</u>	<u>(3,170,000)</u>
Noncurrent portion	<u>\$ 318,450,713</u>	<u>\$ 211,577,375</u>

Principal and interest payments on water system revenue bonds are to be paid from the Board's revenue. Water system revenue bonds are subject to redemption on and after specific dates prior to maturity at the option of the Board at 100 percent of the principal amount plus accrued interest without premium.

Bonds payable activity during 2007 and 2006, were as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Current Portion</u>
Water System Revenue Bonds:					
Series 2001	\$ 62,415,000	\$ --	\$ (45,135,000)	\$ 17,280,000	\$ 1,285,000
Series 2002	50,400,000	--	(50,400,000)	--	--
Series 2004	98,110,000	--	(10,035,000)	88,075,000	1,965,000
Series 2006A	--	165,195,000	--	165,195,000	--
Series 2006B	--	<u>48,610,000</u>	--	<u>48,610,000</u>	<u>2,440,000</u>
	<u>\$ 210,925,000</u>	<u>\$ 213,805,000</u>	<u>\$ (105,570,000)</u>	<u>\$ 319,160,000</u>	<u>\$ 5,690,000</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE F - BONDS PAYABLE (Continued)

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Water System Revenue Bonds:					
Series 2001	\$ 63,595,000	\$ --	\$ (1,180,000)	\$ 62,415,000	\$ 1,240,000
Series 2002	51,450,000	--	(1,050,000)	50,400,000	--
Series 2004	<u>100,000,000</u>	<u>--</u>	<u>(1,890,000)</u>	<u>98,110,000</u>	<u>1,930,000</u>
	<u>\$ 215,045,000</u>	<u>\$ --</u>	<u>\$ (4,120,000)</u>	<u>\$ 210,925,000</u>	<u>\$ 3,170,000</u>

Future bond principal and interest payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 5,690,000	\$ 15,090,000	\$ 20,780,000
2009	5,910,000	14,869,000	20,779,000
2010	6,165,000	14,617,000	20,782,000
2011	6,435,000	14,349,000	20,784,000
2012	6,710,000	14,071,000	20,781,000
2013 - 2017	38,430,000	65,475,000	103,905,000
2018 - 2022	48,760,000	55,148,000	103,908,000
2023 - 2027	63,125,000	41,679,000	104,804,000
2028 - 2032	80,220,000	24,473,000	104,693,000
2033 - 2037	<u>57,715,000</u>	<u>6,536,000</u>	<u>64,251,000</u>
Total	<u>\$ 319,160,000</u>	<u>\$ 266,307,000</u>	<u>\$ 585,467,000</u>

In February 2001, the Board created an irrevocable trust with an escrow agent to retire \$32,460,000 of the Board'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 Board's financial statements in 2001. At June 30, 2007 and 2006, the outstanding 1992 Series defeased bonds amounted to \$22,620,000 and \$24,485,000, respectively.

In May 2001, the Board issued \$66,600,000 in water system revenue bonds to retire \$16,395,000 of the Board's outstanding 1996 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 1996 Series bonds. Consequently, the 1996 Series bonds were considered to be defeased and the liability for those bonds was removed from the Board's financial statements in 2001. At June 30, 2007 and 2006, the outstanding 1996 Series defeased bonds amounted to \$-0- and \$13,950,000, respectively.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE F - BONDS PAYABLE (Continued)

In July 2006, the Board 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 Board'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 Board's financial statements in 2007. At June 30, 2007, the outstanding 2001 Series and 2004 Series defeased bonds amounted to \$43,895,000 and \$8,105,000, respectively.

The debt refunding that occurred during 2007 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2,464,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2036 using the straight-line method.

NOTE G - NOTES PAYABLE

The Board's notes payable as of June 30, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Notes payable to Department of Health		
Note payable in semi-annual installments of approximately \$33,500, including interest at .10%, secured by net revenues of the Board, due June 2025.	\$ 1,198,190	\$ 1,076,438
Note payable in semi-annual installments of approximately \$70,500, including interest at .31%, secured by net revenues of the Board, due November 2025.	2,535,670	919,539
Note payable in semi-annual installments of approximately \$10,200, including interest at .10%, secured by net revenues of the Board, due November 2026.	395,054	395,054
Note payable in semi-annual installments of approximately \$205,000 including interest at .10%, secured by net revenues of the Board, due February 2026.	<u>7,713,579</u>	<u>1,516,057</u>
Balance forward	\$ <u>11,842,493</u>	\$ <u>3,907,088</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE G - NOTES PAYABLE (Continued)

	<u>2007</u>	<u>2006</u>
Balance carried forward	\$ 11,842,493	\$ 3,907,088
Non-interest bearing payable in semi-annual installments of approximately \$53,800, secured by net revenues of the Board, due September 2025.	1,992,308	870,215
Notes payable to other lenders		
Note payable in annual installments of \$188,570, including interest at 5%, due September 2025. Each annual installment is divided into 12 monthly payments of principal and interest of \$15,715.	<u>2,219,852</u> 16,054,653	<u>2,293,736</u> 7,071,039
Less current maturities	<u>800,336</u>	<u>278,000</u>
	\$ <u>15,254,317</u>	\$ <u>6,793,039</u>

The aggregate future maturities of notes payable and interest payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 800,300	\$ 129,200	\$ 929,500
2009	812,200	123,200	935,400
2010	817,200	118,200	935,400
2011	822,300	113,000	935,300
2012	827,700	107,600	935,300
2013 - 2017	4,228,000	448,700	4,676,700
2018 - 2022	4,402,200	274,600	4,676,800
2023 - 2027	<u>3,344,753</u>	<u>66,372</u>	<u>3,411,125</u>
	\$ <u>16,054,653</u>	\$ <u>1,380,872</u>	\$ <u>17,435,525</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE H - NET ASSETS

At June 30, 2007 and 2006, net assets consisted of the following:

	<u>2007</u>	<u>2006</u>
Invested in capital assets - net of related debt		
Capital assets - net	\$ 1,142,931,146	\$ 1,109,371,157
Less water system revenue bonds payable	(324,140,713)	(214,747,375)
Less other loans payable	(15,659,599)	(4,559,392)
Add unspent debt proceeds	<u>60,236,627</u>	<u>94,546</u>
	<u>863,367,461</u>	<u>890,158,936</u>
Restricted for capital activity and debt service		
Restricted cash and cash equivalents	37,160,465	7,515,952
Restricted investments	49,036,246	2,047,525
Less		
Contracts payable, including retainages	(5,633,296)	(94,546)
Accrued interest payable	(7,737,167)	(3,995,889)
Other payable from restricted assets	<u>(587,947)</u>	<u>(587,947)</u>
	<u>72,238,301</u>	<u>4,885,095</u>
Unrestricted	<u>42,917,721</u>	<u>80,252,892</u>
	<u>\$ 978,523,483</u>	<u>\$ 975,296,923</u>

NOTE I - LEASES

The Board 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. Information regarding the cost and related accumulated depreciation of these facilities, which is required to be disclosed by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, is not provided because the accumulation of such data was not considered practical and because the information, when compared to the future minimum rentals to be received, would not be an accurate indication of the productivity of the property on lease or held for lease, due to the methods by which and the long period of time over which the properties were acquired.

The Board also leases space for its deep seawater cooling project on Oahu under a noncancelable operating lease that extends through September 2025.

The future minimum rental payments and sublease income from these operating leases at June 30, 2007, approximated the following:

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE I - LEASES (Continued)

<u>Fiscal Year Ending June 30,</u>	<u>Minimum Future Rental Payments</u>	<u>Less Sublease Income</u>	<u>Net Minimum Future Rentals (Income) Expense</u>
2008	\$ 158,600	\$ 133,300	\$ 25,300
2009	158,600	132,600	26,000
2010	158,600	133,500	25,100
2011	158,600	134,500	24,100
2012	158,600	118,300	40,300
2013 - 2017	793,000	500,000	293,000
2018 - 2022	793,000	500,000	293,000
2023 - 2027	508,041	500,000	8,041
2028 - 2031	<u>--</u>	<u>300,037</u>	<u>(300,037)</u>
	\$ <u>2,887,041</u>	\$ <u>2,452,237</u>	\$ <u>434,804</u>

NOTE J - RELATED PARTY TRANSACTIONS

Billing and Collection Services - The Board has an agreement with the Department of Environmental Services, City and County of Honolulu to provide certain services through June 30, 2007, relating to the billing and collection of sewer service charges. Fees related to these services were negotiated at approximately \$700,000 and \$100,000 for fiscal year 2007 and 2006, respectively. The revenues related to these fees are included in other operating revenues in the accompanying statements of revenues, expenses and changes in net assets.

Central Administrative Services Expense Fee - During fiscal year 2000, the Board entered into an agreement with the City to pay a Central Administrative Services Expense (CASE) fee for treasury, personnel, purchasing, and other services that the City provides to the Board on an on-going basis. The Board's Charter allows for a CASE fee to the extent that it represents a reasonable charge for services necessary for the Board to perform its duties. As of June 30, 2007 and 2006, CASE fees totaled \$1,874,329 and \$3,300,000, respectively.

Amount Due to/from the City - Amounts due from the City approximated \$1,689,900 and \$923,600 as of June 30, 2007 and 2006, and is included in other receivables. Amounts due to the City approximated \$7,800,000 and \$9,926,000 as of June 30, 2007 and 2006, and is included in accounts payable.

Joint Construction Projects - The Board has an agreement with the City to share costs on design, construction, and construction management of certain water main system upgrades. The City handles the administration of the project. At June 30, 2007 and 2006, payments to the City totaled \$1,387,600 and \$3,500,000, respectively.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE J - RELATED PARTY TRANSACTIONS (Continued)

The Board has also entered into a separate agreement with the City for a joint water and sewer system upgrade that is administered by the Board. In 2007, the City advanced approximately \$15,261,000 to the Board for the City's share of total project expenses. At June 30, 2007, approximately \$10,865,000 of these funds has not been expended. Accordingly, the balance is included in other liabilities in the accompanying statements of net assets.

NOTE K - 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 (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 composed of a contributory retirement plan and a 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 new 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.

All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively. Both 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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE K - EMPLOYEE BENEFIT PLANS (Continued)

Most covered employees under the contributory plan are required to contribute 7.8% of their salary. 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, 2005, employer contributions rates are a fixed percentage of compensation, generally 13.75% for most covered employees. The Board's contributions to the ERS as of June 30, 2007, 2006, and 2005, were approximately \$4,111,000, \$4,080,000, and \$3,380,000, respectively, which represented approximately 13.8%, 13.8%, and 11.8% of the Board's covered payroll for fiscal years 2007, 2006, and 2005, respectively.

The 2004 State of Hawaii legislative sessions approved a hybrid retirement plan, which took effect on July 1, 2006. Employees who chose to be under this plan are required to contribute 6.0% of their salary and will receive pensions based on a 2.0% benefit formula instead of a 1.25% benefit formula under the current noncontributory plan. The hybrid plan does not affect the Board's contributions to the ERS.

ERS issues a Comprehensive Annual Financial Report (CAFR) 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) provides certain health care (medical, prescription, vision and dental) and life insurance benefits for retired Board 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 Board 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 Board pays the entire health care premium. For employees retiring with at least 15 years but fewer than 25 years of service, the Board 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 Board pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with fewer than 10 years of service, the Board makes no contributions.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE K - EMPLOYEE BENEFIT PLANS (Continued)

For employees hired after June 30, 2001 and retiring with over 25 years of service, the Board 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 Board 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 Board 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 Board makes no contributions.

The Board also reimburses 100% of Medicare premium costs for retirees and qualified dependents (through the State), who are at least 65 years of age and have at least 10 years of service. Currently, approximately 545 Board retirees and surviving dependents are eligible to receive health care benefits and 434 Board retirees are eligible to receive life insurance benefits. The Board's contributions for post retirement benefits, which are funded on a pay-as-you-go basis, amounted to approximately \$3,475,000 and \$3,600,000 for the fiscal years ended June 30, 2007 and 2006, respectively, and is included as expenses in the accompanying financial statements.

NOTE L - COMMITMENTS

At June 30, 2007 and 2006, accumulated sick leave aggregated approximately \$20,043,000 and \$20,612,000, 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 ERS.

Other commitments, primarily for utility plant construction, approximated \$135,751,000 and \$204,853,000 at June 30, 2007 and 2006. Such amounts are to be funded by operating revenues, contributed capital, and cash investments on hand.

NOTE M - CONTINGENCIES

Workers' Compensation Self-Insurance Liability

The Board is self-insured for workers' compensation and disability claims below \$600,000 and in excess of \$25,000,000. The Board 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 Board provides reserves for claims not covered by insurance that in the opinion of the Division will result in probable judgment against the Board.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006**

NOTE M - CONTINGENCIES (Continued)

The liability for losses and loss adjustment expenses is comprised of two components: Case reserves and incurred but not reported loss reserves (IBNR). Case or outstanding loss reserves represent estimates of ultimate costs to settle reported claims. These estimates are determined on a case-by-case basis by the Division. The total reserve recorded by the Board was approximately \$1,650,000 and \$2,230,000 as of June 30, 2007 and 2006, respectively.

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.

Safe Drinking Water

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 believes that the Board 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 Board's customer service area.

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 affect on the Board's financial position, results of operations, or liquidity.

Credit Risk

Financial instruments, which potentially expose the Board to concentrations of credit risk, consist primarily of investments in debt securities and accounts receivable from customers. Credit risk related to investments in debt securities has been mitigated by limiting such investments to debt obligations of the U.S. government and agencies. The Board's customer base is concentrated among commercial, industrial, residential, and governmental customers located within the City. Although the Board is directly affected by the City's economy, management does not believe significant credit risk exists at June 30, 2007 and 2006, except as provided in the allowance for uncollectible accounts. The Board manages its credit exposure through procedures designed to identify and monitor credit risk.

SUPPLEMENTARY SCHEDULES

**Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE
June 30, 2007**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2007</u>
Water System Revenue Bonds					
Series 2001					
	4.000%	5/15/2001	7/1/2007	(2)	\$ 1,285,000
	5.000%	5/15/2001	7/1/2008	(2)	1,165,000
	4.125%	5/15/2001	7/1/2008	(2)	175,000
	5.000%	5/15/2001	7/1/2009	(2)	1,105,000
	4.250%	5/15/2001	7/1/2009	(2)	300,000
	5.000%	5/15/2001	7/1/2010	(2)	250,000
	4.375%	5/15/2001	7/1/2010	(2)	1,220,000
	5.000%	5/15/2001	7/1/2011	(2)	200,000
	4.500%	5/15/2001	7/1/2011	(2)	1,335,000
	5.375%	5/15/2001	7/1/2012	7/1/2011	60,000
	4.600%	5/15/2001	7/1/2012	7/1/2011	750,000
	4.700%	5/15/2001	7/1/2013	7/1/2011	845,000
	5.500%	5/15/2001	7/1/2014	7/1/2011	890,000
	5.500%	5/15/2001	7/1/2015	7/1/2011	940,000
	5.500%	5/15/2001	7/1/2016	7/1/2011	760,000
	5.000%	5/15/2001	7/1/2016	7/1/2011	230,000
	5.000%	5/15/2001	7/1/2017	7/1/2011	1,045,000
	5.125%	5/15/2001	7/1/2018	7/1/2011	1,095,000
	5.125%	5/15/2001	7/1/2019	7/1/2011	1,150,000
	5.125%	5/15/2001	7/1/2020	7/1/2011	1,210,000
	5.125%	5/15/2001	7/1/2021	7/1/2011	1,270,000
					<u>\$ 17,280,000</u>

(1) Call dates indicated are optional.

(2) Noncallable.

**Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE (Continued)
June 30, 2007**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2007</u>
Water System Revenue Bonds					
Series 2004					
Uninsured Serial Bonds:	2.000%	1/28/2004	7/1/2007	(2)	\$ 1,965,000
	3.000%	1/28/2004	7/1/2008	(2)	2,015,000
Insured Serial Bonds:	3.000%	1/28/2004	7/1/2009	(2)	2,080,000
	3.000%	1/28/2004	7/1/2010	(2)	2,140,000
	3.000%	1/28/2004	7/1/2011	(2)	2,205,000
	3.500%	1/28/2004	7/1/2012	(2)	2,280,000
	4.000%	1/28/2004	7/1/2013	(2)	2,365,000
	4.000%	1/28/2004	7/1/2014	(2)	2,465,000
	4.750%	1/28/2004	7/1/2018	7/1/2014	2,970,000
	4.750%	1/28/2004	7/1/2019	7/1/2014	3,115,000
	4.750%	1/28/2004	7/1/2020	7/1/2014	3,265,000
	5.000%	1/28/2004	7/1/2021	7/1/2014	3,430,000
	5.000%	1/28/2004	7/1/2022	7/1/2014	3,605,000
	5.000%	1/28/2004	7/1/2023	7/1/2014	3,790,000
	5.000%	1/28/2004	7/1/2024	7/1/2014	3,985,000
	5.000%	1/28/2004	7/1/2025	7/1/2014	4,185,000
Insured Term Bonds	5.000%	1/28/2004	7/1/2033	7/1/2014	<u>42,215,000</u>
					<u>\$ 88,075,000</u>

(1) Call dates indicated are optional.

(2) Noncallable.

**Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE (Continued)
June 30, 2007**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2007</u>
Water System Revenue Bonds					
Series 2006A (Non-AMT)					
Insured Serial Bonds:	4.000%	7/7/2006	7/1/2012	(2)	\$ 975,000
	4.000%	7/7/2006	7/1/2013	(2)	1,015,000
	4.000%	7/7/2006	7/1/2014	(2)	1,050,000
	4.250%	7/7/2006	7/1/2015	(2)	3,660,000
	4.250%	7/7/2006	7/1/2016	(2)	3,820,000
	4.000%	7/7/2006	7/1/2017	(2)	3,000,000
	4.125%	7/7/2006	7/1/2017	(2)	975,000
	4.200%	7/7/2006	7/1/2018	(2)	1,185,000
	5.000%	7/7/2006	7/1/2019	7/1/2016	595,000
	4.125%	7/7/2006	7/1/2019	(2)	645,000
	4.125%	7/7/2006	7/1/2020	(2)	1,290,000
	5.000%	7/7/2006	7/1/2021	7/1/2016	3,315,000
	4.300%	7/7/2006	7/1/2021	(2)	390,000
	4.500%	7/7/2006	7/1/2022	(2)	7,860,000
	4.500%	7/7/2006	7/1/2023	(2)	8,225,000
	4.500%	7/7/2006	7/1/2024	(2)	8,595,000
	5.000%	7/7/2006	7/1/2025	7/1/2016	9,010,000
	5.000%	7/7/2006	7/1/2026	7/1/2016	9,470,000
	4.500%	7/7/2006	7/1/2027	(2)	9,925,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2028	7/1/2016	10,390,000
	4.750%	7/7/2006	7/1/2029	7/1/2016	10,890,000
	4.750%	7/7/2006	7/1/2030	7/1/2016	11,420,000
	4.750%	7/7/2006	7/1/2031	7/1/2016	11,965,000
	5.000%	7/7/2006	7/1/2032	7/1/2016	8,220,000
	5.000%	7/7/2006	7/1/2033	7/1/2016	8,640,000
	5.000%	7/7/2006	7/1/2034	7/1/2016	9,080,000
	5.000%	7/7/2006	7/1/2035	7/1/2016	9,550,000
	5.000%	7/7/2006	7/1/2036	7/1/2016	<u>10,040,000</u>
					<u>\$ 165,195,000</u>

(1) Call dates indicated are optional.

(2) Noncallable.

**Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE (Continued)
June 30, 2007**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2007</u>
Water System Revenue Bonds Series 2006B (AMT)					
Insured Serial Bonds	4.500%	7/7/2006	7/1/2007	(2)	\$ 2,440,000
	4.500%	7/7/2006	7/1/2008	(2)	2,555,000
	5.000%	7/7/2006	7/1/2009	(2)	2,680,000
	5.000%	7/7/2006	7/1/2010	(2)	2,825,000
	5.000%	7/7/2006	7/1/2011	(2)	2,970,000
	5.000%	7/7/2006	7/1/2012	(2)	2,940,000
	5.000%	7/7/2006	7/1/2013	(2)	3,095,000
	5.000%	7/7/2006	7/1/2014	(2)	3,255,000
	5.000%	7/7/2006	7/1/2015	(2)	3,430,000
	5.000%	7/7/2006	7/1/2016	(2)	3,605,000
	5.250%	7/7/2006	7/1/2017	7/1/2016	3,800,000
	5.250%	7/7/2006	7/1/2018	7/1/2016	4,005,000
	5.250%	7/7/2006	7/1/2019	7/1/2016	4,220,000
	5.250%	7/7/2006	7/1/2020	7/1/2016	4,455,000
	5.250%	7/7/2006	7/1/2021	7/1/2016	2,335,000
					<u>48,610,000</u>
					<u>\$ 319,160,000</u>

(1) Call dates indicated are optional.

(2) Noncallable.

**Board of Water Supply
City and County of Honolulu
SUPPLEMENTAL SCHEDULE OF NET REVENUE REQUIREMENT
Fiscal Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
REVENUES		
Water sales	\$ 113,630,379	\$ 100,876,964
Interest	8,478,871	4,519,164
Other	<u>3,623,936</u>	<u>2,529,580</u>
Total revenues	<u>125,733,186</u>	<u>107,925,708</u>
DEDUCTIONS		
Operating expenses	127,266,716	129,759,898
Less depreciation expense	<u>(40,228,312)</u>	<u>(38,827,552)</u>
Total deductions	<u>87,038,404</u>	<u>90,932,346</u>
Net revenues	\$ <u>38,694,782</u>	\$ <u>16,993,362</u>
NET REVENUE REQUIREMENT		
Greater of:		
1) Aggregate debt service	\$ 20,879,950	\$ 13,372,881
Required deposits - subordinate obligation fund	<u>2,701,869</u>	<u>206,000</u>
	\$ <u>23,581,819</u>	\$ <u>13,578,881</u>
2) Aggregate debt service	\$ 20,879,950	\$ 13,372,881
	x <u>1.20</u>	x <u>1.20</u>
	\$ <u>25,055,940</u>	\$ <u>16,047,457</u>
Net revenue requirement	\$ <u>25,055,940</u>	\$ <u>16,047,457</u>