

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

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

Fiscal Years Ended June 30, 2009 and 2008



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

AMERICAN SAVINGS BANK TOWER | 1001 BISHOP STREET, SUITE 1700 | HONOLULU, HAWAII 96813-3696
T (808) 524-2255 F (808) 523-2090 | nkcpa.com

**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, 2009**

The Board of Water Supply of the City and County of Honolulu (Board) is pleased to present its Annual Financial Report for the fiscal year 2009. 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 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 14 Divisions and Support Offices - Business Development, Capital Projects, Communications, Customer Care, Finance, Human Resources, Information Technology, Legal Counsel, Field Operations, Water System Operations, Water Resources, Land, Security and the Office of the Manager and Chief Engineer. All are under the direction of the Manager and Chief Engineer (Manager), who is appointed by the Board of Directors, and the Deputy Manager and Chief Engineer.

The Board of Directors has the power to 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 water system self-supporting. Rates and charges are determined on the basis of a recommendation by the Manager, subject to approval by the Board of Directors. Such rates are not subject to regulation by any governmental body or authority, however public hearings are held to provide an open forum for public discussion.

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 and other projects.

The Board services 166,045 accounts and a residential population of 905,034. The service area covers the island of Oahu and is 596.7 square miles. The customer base includes the residential population, businesses and industries, and agriculture. Of the total accounts, 154,051 are residential (92.8%), representing 59.9% of the total amount received from water

**Board of Water Supply
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INTRODUCTION (Continued)
Fiscal Year Ended June 30, 2009**

sales in fiscal year 2009; 11,125 are commercial and industrial (6.7%), representing 39.1% of the total amount received from water sales in fiscal year 2009; and 869 are agricultural (0.5%), representing 1.0% of the total amount received from water sales in fiscal year 2009.

The Board provides high quality water at reasonable rates, while protecting the long-term viability of Oahu's water resources and enhancing the environment. In addition to providing potable water of 147 million gallons per day (mgd), the Board is capable of delivering approximately 10 mgd of recycled water to various golf courses, as well as Ewa and Campbell Industrial Park users in West Oahu.

Mission

The mission of the Board is to provide a safe and dependable water supply 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.

Looking Ahead

Board of Water Supply employees continue to concentrate their efforts and attention in support of the Board's mission with a focus on the following strategic objectives:

Resource Sustainability

This strategic objective ensures that natural groundwater supplies are protected and managed efficiently. The Board plans for a variety of strategies and projects in conservation, potable groundwater and alternative water supplies, including brackish, recycled and desalinated water to meet future demands. Its efforts also focus on protecting the natural environment, important watersheds and water sources by monitoring Oahu's rainfall and aquifer water levels and salinity, and taking appropriate precautions and actions to ensure the reliability of the island's potable water supplies.

- Board investigators responded to numerous customer calls of water seepage on public property, pinpointing underground water leaks for repair and verifying the cause of leaks.

**Board of Water Supply
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- Recycled water is an important component of a host of conservation strategies to reduce potable water consumption. The Board continues to support the use of recycled water in the Ewa area as an appropriate and more efficient source of water for irrigation and industrial purposes. Recycled water use from the Honouliuli Water Recycling Facility continues to expand in Ewa for irrigation and industrial purposes. Recycled water production averaged 8.4 million gallons per day in FY 2009.
- The Board continues to promote the U.S. Environmental Protection Agency's (EPA) Water Sense-labeled products that identify water-using products or programs as high quality and water-efficient.
- The Board secured more than \$500,000 for drought mitigation programs. The grant, provided by the State Commission on Water Resource Management, helped to fund three Board projects. The projects created wildland fire protection to support the Honolulu Fire Department and the Department of Land and Natural Resources, extended the successful toilet rebate program that promotes changing high-flow to low-flow toilets and helped to purchase leak loggers for pipeline leak detection work.
- The Board continues to participate in the Mayor's Energy and Sustainability Task Force to conserve water in City facilities.
- Work continues, in partnership with the Department of Planning and Permitting, on the Koolau-poko Watershed Management Plan. This plan is the regional component of long-range strategic water plans for the City. Watershed management plans provide the strategic planning framework for watershed protection projects and water use and development for the Board's long-range capital program, ensuring that adequate water supplies and water system infrastructure will meet Oahu's future water demands.
- The Board implemented and expanded upon a wide array of public information and education programs that support and reinforce efforts to educate customers about the Board, while continuing to stress the importance of conserving water throughout the year.
- The Board continues to ensure that the community's potable water supply complies with all Federal and State safe drinking water regulations by monitoring changes in safe drinking water regulations and installing new and replacement water treatment facilities as necessary.
- The Board installed diesel retrofits on four medium-duty trucks to reduce particulate matter emissions. The retrofit installations were completely funded by private business and a federal grant.

**Board of Water Supply
City and County of Honolulu
INTRODUCTION (Continued)
Fiscal Year Ended June 30, 2009**

Economic Sustainability

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

- The Board implemented a 10 percent water rate increase on July 1, 2008. 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 two years on July 1 of each year. Meanwhile, the Board is in the process of reviewing its rate structure to continue to fund further proactive infrastructure repair and replacement programs and to keep up with the rising cost of delivering water to customers.
- On July 1, 2008, the Board also implemented a power cost adjustment to help pay for unexpected electrical cost surcharges incurred during the prior fiscal year (FY 2008). The Power Cost Adjustment was 9.4 cents for every 1,000 gallons of water used and will be reviewed annually so that the adjustment only recovers unanticipated energy cost surcharges from the prior fiscal year.
- A total of \$18.4 million in construction contracts and more than \$1 million in professional services contracts (infrastructure design, archaeological and environmental assessment services) were awarded as of June 30, 2009. The repair and replacement projects aim to proactively address the needs of our aging infrastructure to ensure continuity of core services.
- While the proactive replacement of aging water mains help to reduce the amount of water emergencies, main breaks are still an acknowledged part of the water utility industry and can have a tremendous impact on the public. Board crews respond 24 hours a day, seven days a week to water emergencies.
 - In calendar year 2008, Board employees responded to a total of 319 main breaks or about 16 breaks per 100 miles of pipeline.
 - According to the American Water Works Association, water utilities nationwide should strive for roughly 25-30 breaks per 100 miles of pipeline. The Board ratio was better than the national benchmark.
- As part of the Board's objective to optimize work efficiency, the Board continues to roll out its Computerized Maintenance Management System (CMMS) to supervisors in its Water System Operations Division. The CMMS captures labor, vehicular/equipment, and parts and materials costs that are automatically calculated at job completion, and an integrated electronic map makes data readily available so crews can be more informed in the field.

**Board of Water Supply
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INTRODUCTION (Continued)
Fiscal Year Ended June 30, 2009**

- The Board's HONU GIS (Honolulu ONline Utilities Geographic Information System) application upgrade has been taking precise Global Positioning System (GPS) fixes on Board assets in the field so they can be scheduled for maintenance, located by crews and used in hydraulic modeling.
- The Board has also embarked on a program to 'virtualize' all the computer servers, which essentially eliminates most of the individual server boxes and moves the software onto one large machine that can logically separate its functions.
- The Board continues to pursue its wireless initiative, which will result in the Board having an island-wide, secure, broadband, disaster-hardened communications network.

Organizational Sustainability

The Board's third objective calls for a sound, well structured, efficient organization with the tools and skills necessary to provide exceptional value to customers, the community and watersheds.

- The Board successfully processed more than 180,000 customer calls regarding bill payments, delinquent bills, account inquiries, set-up and closing of water service, water service investigations, building permits, new water services or meter readings during the fiscal year.
- The Board continues to update its emergency response plan so it can effectively respond to an emergency and minimize customer impact. The Board coordinated two emergency response exercises to test its plan.
- Employee development continues to be a top priority for the Board, so staff focused on providing in-house training opportunities to meet the specific needs of front-line supervisors.
- Recruitment outreach continues to be important to the viability of our organizational sustainability even during an economic downturn.
- Management-Labor Relations is a key factor to the success of efficient operations. During the past fiscal year, a number of management employees participated with Board union shop stewards in the United Public Workers (UPW) and Hawaii Government Employees Association (HGEA) Joint Labor Management Seminars.
- Employee recognition programs are a key element to foster employee morale and encourage continuing excellence. These programs are an important part of the Board's human resources development.

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, 2009 and 2008, 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, 2009 and 2008, 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 December 28, 2009, 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 should be considered in assessing the results of our audit.

The Management's Discussion and Analysis information on pages 10 - 16 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.

N&K CPAs, Inc.

Honolulu, Hawaii
December 28, 2009

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2009**

This section presents the management's discussion and analysis of the Board's financial condition and activities for the fiscal year ended June 30, 2009. This information should be read in conjunction with the financial statements.

Financial Highlights

The Board implemented the third of five scheduled annual rate increases in July 2008 to meet rising costs of delivering water to customers and to continue its proactive infrastructure repair and replacement programs. Water rates increased by 10 percent, approximately \$3 more on monthly water charges for an average single-family residential customer, effective July 1, 2008.

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

- Total cash and investments were \$ 169.0 million at June 30, 2009. This represents a decrease of \$10.1 million from June 30, 2008. This decrease was primarily attributable to the spending of Series 2006A and Series 2006B Revenue Bonds proceeds for construction of its water system infrastructure.
- Total assets at year-end were \$1.36 billion, which exceeded liabilities by \$980 million.
- The Board's unrestricted current assets at June 30, 2009 were 6.0 times its related current liabilities compared to 4.3 at June 30, 2008.
- The Board's debt to equity ratio was 34.4% at June 30, 2009, indicating additional capacity to issue debt.
- Operating revenues for fiscal year 2009 were \$139.6 million, an increase over the \$131.0 million reported for the fiscal year 2008. This increase is attributable to water rate increases.
- Net assets decreased \$2.9 million in fiscal year 2009, from \$982.6 million at the end of fiscal year 2008 to \$979.7 million at the end of fiscal year 2009. This was primarily due to an increase to operating revenues of \$8.6 million, offset by an increase in operating expenses of \$1.8 million and a \$10.9 million decrease in contributions in aid.
- Management continuously reviews and recommends changes to water usage rates and its water system facilities charges. The Board is currently in the second phase of the comprehensive cost of service study to analyze water systems facilities charges ("WSFC"). These fees are levied against all new developments and residential properties requiring water from the Board's systems. The Board is now carefully evaluating the possibility of moderate increases to the WSFC.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2009**

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, 2009. The statement of revenues, expenses and changes in net assets presents the results of operations for the fiscal 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 post employment benefits other than pensions, outstanding bonds and net revenue requirements is also included.

**Board of Water Supply
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2009**

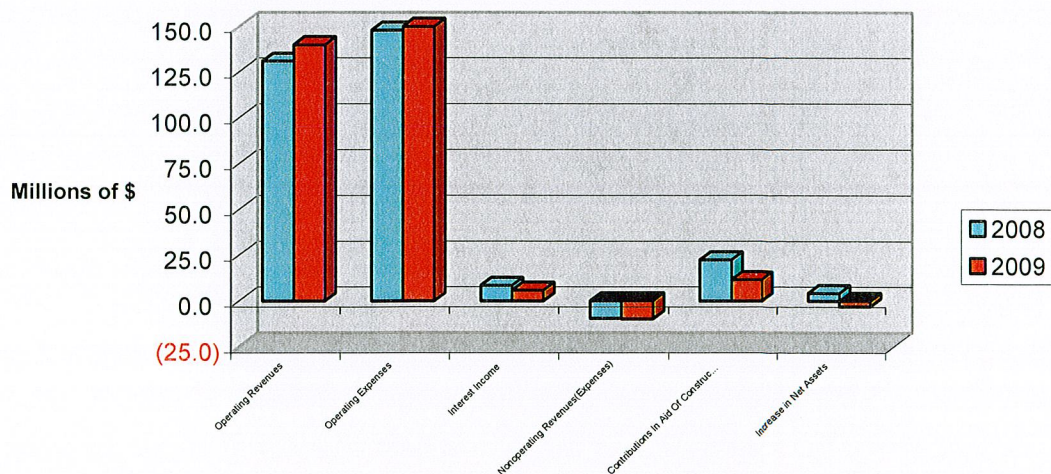
Financial Analysis

Results of Operations

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30,		%
	2009	2008	Variance
	(in thousands)		
Operating revenues	\$ 139,596	\$ 130,956	6.6%
Operating expenses:			
Depreciation	39,436	39,034	1.0%
Administrative and general	39,420	38,922	1.3%
Power and pumping	29,383	29,292	0.3%
Other operating expenses	41,642	40,801	2.1%
Total operating expenses	149,881	148,049	1.2%
Operating loss	(10,285)	(17,093)	-39.8%
Nonoperating revenues(expenses):			
Interest income	5,678	8,370	-32.2%
Others	(9,794)	(9,491)	3.2%
Total nonoperating revenues (expenses)	(4,116)	(1,121)	267.2%
Contributions in aid of construction	11,464	22,332	-48.7%
Increase (decrease) in net assets	\$ (2,937)	\$ 4,118	-171.3%

Statement 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, 2009**

The decrease in net assets for the fiscal year ended June 30, 2009 was \$2.9 million, compared to an increase of \$4.1 million for fiscal year ended June 30, 2008. The changes in revenues and expenses are explained below.

Operating revenues for fiscal year 2009 were \$139.6 million, an increase of \$8.6 million from fiscal year 2008 revenues of \$131.0 million. This is primarily attributable to a water rate increase. The Board implemented a 10% increase to the water rates effective July 1, 2008.

Total operating expenses increased to \$149.9 million in fiscal year 2009, an increase of \$1.8 million from fiscal year 2008. Factors contributing to this change are explained below.

Administrative and general expenses increased \$.5 million and depreciation increased \$.4 million in fiscal year 2009

In the other operating expense categories, expenses increased \$.8 million. This was comprised of an increase in expensed project costs offset by a decrease in non potable water treatment expenses from fiscal year 2008.

Non-operating expenses increased by \$3.0 million due primarily to a higher loss from disposition of property.

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 \$11.5 million in fiscal year 2009 compared to \$22.3 million in fiscal year 2008. The decrease in contributions in aid was due to a decrease in capital projects completed by private developers of \$3.8 million in fiscal year 2009 compared to \$11.5 million in fiscal year 2008. In fiscal year 2009, the major developments completed were Palehua East B, Phase 2, Ewa Gentry 2, and Fort Weaver Road Ocean Pointe Area III E.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2009**

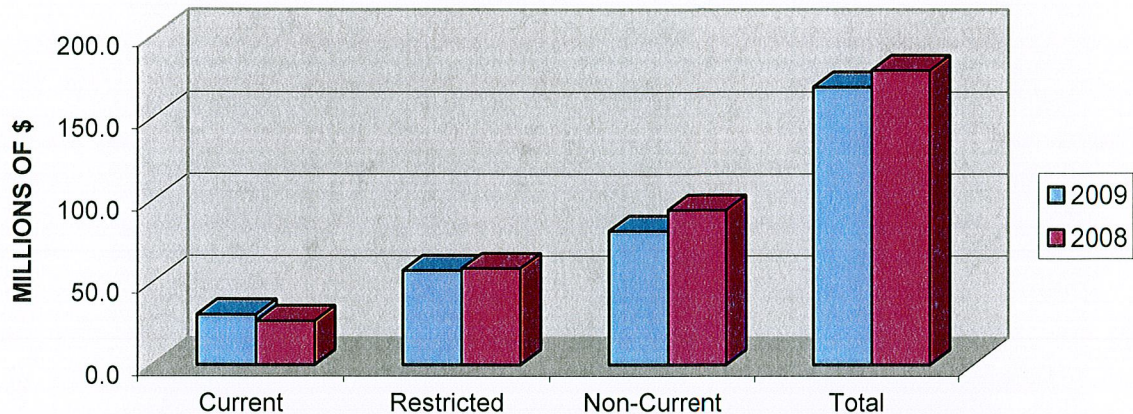
Financial Condition

CONDENSED STATEMENTS OF NET ASSETS

	June 30,		%
	2009	2008	Variance
	(in thousands)		
Current Assets			
Cash and equivalents	\$ 14,595	\$ 4,104	255.6%
Investments	15,884	22,464	-29.3%
Other current assets	24,685	26,414	-6.5%
Restricted Assets			
Cash and equivalents	15,456	21,681	-28.7%
Investments	41,617	36,830	13.0%
Other restricted assets			
Investments	81,448	94,056	-13.4%
Other Assets	3,083	3,222	-4.3%
Property, plant and equipment-net of accumulated depreciation	<u>1,160,243</u>	<u>1,161,340</u>	<u>-0.1%</u>
Total assets	\$ <u>1,357,011</u>	\$ <u>1,370,111</u>	<u>-1.0%</u>
Current liabilities	\$ 9,499	\$ 12,241	-22.4%
Other liabilities	62,305	63,131	-1.3%
Bonds payable, noncurrent	<u>305,502</u>	<u>312,098</u>	<u>-2.1%</u>
Total liabilities	<u>377,306</u>	<u>387,470</u>	<u>-2.6%</u>
Net Assets:			
Invested in capital assets, net of related debt	845,314	859,820	-1.7%
Restricted for capital activity and debt service	20,456	7,925	158.1%
Unrestricted	<u>113,935</u>	<u>114,896</u>	<u>-0.8%</u>
Total net assets	<u>979,705</u>	<u>982,641</u>	<u>-0.3%</u>
Total liabilities and net assets	\$ <u>1,357,011</u>	\$ <u>1,370,111</u>	<u>-1.0%</u>

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2009**

Cash and Investments



The Board's total cash and investments decreased by \$10.1 million in 2009; from \$179.1 million in 2008 to \$169.0 million in 2009. This resulted from the spending down of the Series 2006A and 2006B bond proceeds for capital improvements.

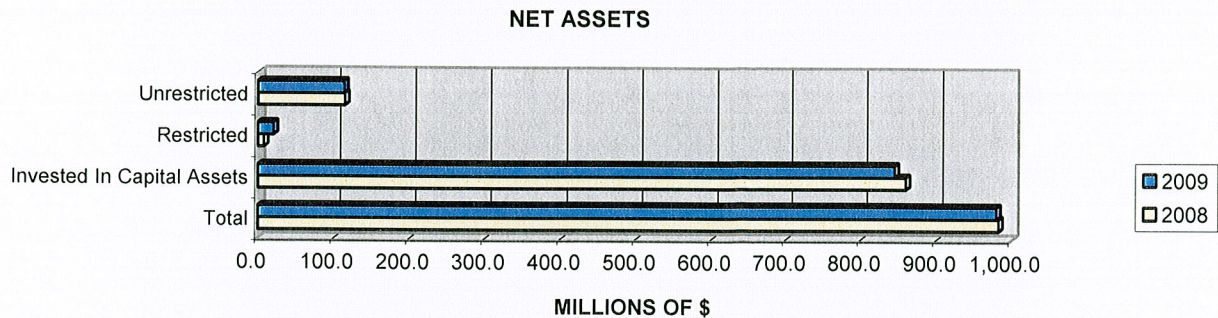
Effective July 1, 2008, the Board increased its water rates by 10%. There will be subsequent annual increases totaling 13% through June 30, 2011.

The Board's unrestricted current assets at June 30, 2009 were 6.0 times its related current liabilities compared to 4.3 times at June 30, 2008. The ratio increase was due to a decrease in unrestricted current liabilities.

The Board issues long-term bonds to finance part of its capital improvement program. The Board's debt to equity ratio has remained fairly constant at 34.4% for fiscal year 2009 and 34.5% for fiscal year 2008.

Net assets decreased by \$2.9 million or .30% from \$982.6 in fiscal year 2008 to \$979.7 million at the end of fiscal year 2009. This reflects an increase in operating revenues offset by a decrease in contributions in aid and interest income.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2009**



Capital Assets and Long-Term Debt

During the fiscal year, the Board capitalized \$55.4 million to its utility plant in service. Major assets added were Farrington Highway water system improvements, \$5.1 million; Diamond Head water system improvements, \$4.9 million; California Avenue water system improvements, \$4.9 million; Kamehameha IV Road water system improvements, \$3.5 million; Haleiwa road water system improvements, \$2.3 million; Waipahu Wells II additions and renovations to the pumping equipment, granular activated carbon equipments and structure, \$2.3 million; and various transmission and distribution mains, \$20.6 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.

Rate Covenant

The Board is required under its bond indenture, among other things, to fix, charge, and collect such rates and other charges in each fiscal year to meet the net revenue requirement for such fiscal year. The net revenue requirement is the greater of 1) the sum of the aggregate debt service and all deposits required by bond resolution to be made, or 2) 1.20 times the aggregate debt service. The Board met the net revenue requirement for the fiscal year ended June 30, 2009.

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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,595,293	\$ 4,103,505
Investments	15,883,657	22,464,516
Interest receivable	1,124,624	1,849,608
Customer receivables		
Billed, less allowances for uncollectible accounts of		
\$583,000 in 2009 and \$624,000 in 2008	7,518,875	8,294,590
Unbilled	10,208,663	9,645,661
Other receivables, less allowances for uncollectible		
accounts of \$510,868 in 2009 and 2008	1,355,532	1,887,797
Materials and supplies	4,425,164	4,725,195
Prepaid expenses	<u>51,897</u>	<u>10,956</u>
Total current assets	<u>55,163,705</u>	<u>52,981,828</u>
RESTRICTED ASSETS		
Cash and cash equivalents	15,456,032	21,680,745
Investments	<u>41,617,456</u>	<u>36,830,620</u>
Total restricted assets	<u>57,073,488</u>	<u>58,511,365</u>
INVESTMENTS	<u>81,447,912</u>	<u>94,056,500</u>
BOND ISSUE COSTS		
Net of accumulated amortization of \$745,449 in 2009		
and \$606,310 in 2008	<u>3,083,076</u>	<u>3,222,215</u>
CAPITAL ASSETS		
Land	32,373,064	32,373,064
Infrastructure	1,217,427,723	1,174,351,038
Building and improvements	146,070,343	145,181,714
Equipment and machinery	223,487,928	216,883,021
Construction work in progress	<u>187,570,801</u>	<u>200,954,039</u>
	1,806,929,859	1,769,742,876
Less accumulated depreciation	<u>646,687,315</u>	<u>608,403,065</u>
Capital assets - net	<u>1,160,242,544</u>	<u>1,161,339,811</u>
TOTAL	<u>\$ 1,357,010,725</u>	<u>\$ 1,370,111,719</u>

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET ASSETS (Continued)
June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable from current assets		
Accounts payable	\$ 4,335,311	\$ 5,022,219
Contracts payable, including retainages	2,731,600	5,037,347
Accrued vacation, current portion	2,090,933	2,172,288
Other	340,910	9,573
	<u>9,498,754</u>	<u>12,241,427</u>
Payable from restricted assets		
Contracts payable, including retainages	6,329,591	5,270,513
Accrued interest payable	7,586,053	7,655,489
Bonds payable, current portion	6,165,000	5,910,000
Notes payable, current portion	1,421,104	1,099,600
Other	587,947	587,947
	<u>22,089,695</u>	<u>20,523,549</u>
Total current liabilities	<u>31,588,449</u>	<u>32,764,976</u>
OTHER LIABILITIES		
Customer advances	3,529,760	6,702,021
Accrued vacation, noncurrent portion	4,958,539	4,598,020
Accrued workers' compensation	1,856,610	1,680,503
Notes payable, noncurrent portion	23,954,597	19,484,265
Other	5,915,916	10,142,529
Total other liabilities	<u>40,215,422</u>	<u>42,607,338</u>
BONDS PAYABLE - NONCURRENT	<u>305,501,990</u>	<u>312,097,525</u>
Total liabilities	<u>377,305,861</u>	<u>387,469,839</u>
NET ASSETS		
Invested in capital assets - net of related debt	845,313,864	859,819,905
Restricted for capital activity and debt service	20,455,886	7,925,932
Unrestricted	113,935,114	114,896,043
Total net assets	<u>979,704,864</u>	<u>982,641,880</u>
TOTAL	<u>\$ 1,357,010,725</u>	<u>\$ 1,370,111,719</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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Water sales	\$ 135,243,214	\$ 128,123,969
Other, principally contract and service fees	<u>4,352,669</u>	<u>2,831,661</u>
Total operating revenues	<u>139,595,883</u>	<u>130,955,630</u>
OPERATING EXPENSES		
Depreciation	39,436,169	39,033,942
Administrative and general	39,419,836	38,922,486
Power and pumping	29,383,411	29,291,507
Transmission and distribution	15,692,853	15,482,413
Maintenance	15,750,430	14,428,599
Water reclamation	4,497,978	5,426,025
Customers' accounting and collection	3,131,356	3,400,861
Central administrative services expense fees	2,500,000	2,000,000
Source of supply	48,171	62,673
Water treatment	<u>21,094</u>	<u>--</u>
Total operating expenses	<u>149,881,298</u>	<u>148,048,506</u>
LOSS FROM OPERATIONS	<u>(10,285,415)</u>	<u>(17,092,876)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	5,677,856	8,370,285
Interest expense, net of interest capitalized of \$4,085,835 in 2009 and \$3,959,642 in 2008	(10,501,696)	(10,852,423)
Realized and unrealized gain on investments	2,884,609	1,752,502
Loss from disposal of capital assets	(2,141,403)	(1,513,120)
Other	<u>(35,026)</u>	<u>1,121,766</u>
Total nonoperating expenses	<u>(4,115,660)</u>	<u>(1,120,990)</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>11,464,059</u>	<u>22,332,263</u>
INCREASE (DECREASE) IN NET ASSETS	(2,937,016)	4,118,397
NET ASSETS AT BEGINNING OF FISCAL YEAR	<u>982,641,880</u>	<u>978,523,483</u>
NET ASSETS AT END OF FISCAL YEAR	\$ <u>979,704,864</u>	\$ <u>982,641,880</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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 140,340,861	\$ 130,104,898
Payments to suppliers for goods and services	(70,577,344)	(75,872,323)
Payments to employees for services	(43,430,844)	(42,901,183)
Other operating receipts (payments) - net	<u>(140,150)</u>	<u>1,103,518</u>
Net cash provided by operating activities	<u>26,192,523</u>	<u>12,434,910</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(278,024,413)	(355,727,286)
Proceeds from maturity of investments	295,311,633	345,017,420
Interest on investments	<u>6,402,840</u>	<u>8,097,399</u>
Net cash provided by (used in) investing activities	<u>23,690,060</u>	<u>(2,612,467)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets - net of contributions in aid of construction of \$4,400,155 in 2009 and \$12,541,303 in 2008	(33,460,181)	(47,235,365)
Proceeds from sale of capital assets	19,557	168,730
Customer advances for capital projects	3,891,643	8,282,962
Principal paid on bonds	(5,910,000)	(5,690,000)
Interest paid on bonds	(14,869,246)	(15,089,940)
Payments in connection with bond issuance	--	(126,800)
Proceeds from notes payable	6,056,375	5,433,991
Interest paid on notes payable	(79,117)	(112,486)
Principal paid on notes payable	<u>(1,264,539)</u>	<u>(904,779)</u>
Net cash used in capital and related financing activities	<u>(45,615,508)</u>	<u>(55,273,687)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,267,075	(45,451,244)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	<u>25,784,250</u>	<u>71,235,494</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR (including \$15,456,032 in 2009 and \$21,680,745 in 2008 in restricted accounts)	\$ <u>30,051,325</u>	\$ <u>25,784,250</u>

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (10,285,415)	\$ (17,092,876)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	40,933,515	40,462,978
Provision for doubtful accounts	110,497	(452,484)
Provision for workers' compensation	176,107	29,947
Other revenues	(35,026)	1,121,766
Change in operating assets and liabilities:		
Customer receivables	102,216	(1,059,693)
Materials and supplies	300,031	88,314
Other receivables	532,265	661,445
Prepaid expenses and other	(40,941)	692,297
Accounts and contracts payable	(1,984,614)	(10,469,562)
Accrued vacation	279,164	153,859
Other liabilities	<u>(3,895,276)</u>	<u>(1,701,081)</u>
Net cash provided by operating activities	\$ <u>26,192,523</u>	\$ <u>12,434,910</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	\$ 4,400,155	\$ 12,541,303
Capital assets included in accounts and contracts payable	\$ 8,056,160	\$ 8,005,123
Interest capitalized in capital assets	\$ 4,085,835	\$ 3,959,642
Amortization of bond issue costs	\$ 139,139	\$ 134,505
Amortization of bond premium/discount	\$ (532,521)	\$ (545,174)
Amortization of deferred loss on refunding	\$ 101,986	\$ 101,986

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

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, 2009 and 2008**

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 certificates.
 - The extramural account holds reimbursements received from any governmental agency or private entity, pursuant to negotiated agreements, contracts and/or grants.
- (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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 statements 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

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

- (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) **Reclassification** - 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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

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. The City's demand deposits are fully insured or collateralized with securities held by the City or its agents in the City's name.

The HRS authorized 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 primarily in obligations of the U.S. government, or corporate bonds guaranteed under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program, 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 investments 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 a broker/dealer firm. At June 30, 2009, approximately \$9,742,000 in cash and cash equivalents and all investments were held by a broker/dealer firm. Cash, cash equivalents and investments held by the broker/dealer firm are insured up to \$500,000, of which up to \$100,000 may be uninvested cash, by the Securities Investor Protection Corporation (SIPC). Excess coverage purchased from a private insurer by the broker/dealer firm is designed to provide additional protection up to the full net equity value of each account.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE B - CASH AND INVESTMENTS (Continued)

At June 30, 2009 and 2008, investments consisted of the following:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
U. S. government treasury obligations - short-term	\$ 5,753,023	\$ 5,786,656	\$ 9,778,262	\$ 10,027,165
U.S. government agencies short-term	21,985,654	22,095,401	19,301,415	19,472,287
U. S. government treasury obligations	22,155,427	22,564,788	74,637,739	74,802,341
U.S. government agencies	62,093,007	62,853,018	48,926,021	49,049,843
Corporate bonds	25,401,198	25,649,162	--	--
	<u>\$ 137,388,309</u>	<u>\$ 138,949,025</u>	<u>\$ 152,643,437</u>	<u>\$ 153,351,636</u>

At June 30, 2009, the maturities of the investments were as follows:

	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U. S. government treasury obligations - short-term	\$ 5,786,656	\$ 5,786,656	\$ --	\$ --	\$ --
U.S. government agencies short-term	22,095,401	22,095,401	--	--	--
U. S. government treasury obligations	22,564,788	--	22,564,788	--	--
U.S. government agencies	62,853,018	--	62,853,018	--	--
Corporate bonds	<u>25,649,162</u>	<u>--</u>	<u>25,649,162</u>	<u>--</u>	<u>--</u>
	<u>\$ 138,949,025</u>	<u>\$ 27,882,057</u>	<u>\$ 111,066,968</u>	<u>\$ --</u>	<u>\$ --</u>

The investments are reflected in the statements of net assets as of June 30, 2009 and 2008 are as follows:

	2009	2008
Investments		
Unrestricted - current	\$ 15,883,657	\$ 22,464,516
Unrestricted - noncurrent	81,447,912	94,056,500
Restricted	<u>41,617,456</u>	<u>36,830,620</u>
Total	<u>\$ 138,949,025</u>	<u>\$ 153,351,636</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE C - RESTRICTED ASSETS

At June 30, 2009 and 2008, restricted assets were held for the following purposes:

	<u>2009</u>	<u>2008</u>
Construction, renewals, and replacements	\$ 17,893,042	\$ 34,066,842
Debt service	<u>39,180,446</u>	<u>24,444,523</u>
	\$ <u>57,073,488</u>	\$ <u>58,511,365</u>

NOTE D - CAPITAL ASSETS

Capital assets activity during 2009 and 2008, were as follows:

	Balance July 1, 2008	Additions	Transfers	Retirements	Balance June 30, 2009
Depreciable assets					
Infrastructure	\$ 1,174,351,038	\$ 3,914,563	\$ 42,121,382	\$ (2,959,260)	\$ 1,217,427,723
Buildings and improvements	145,181,714	--	917,666	(29,037)	146,070,343
Equipment and machinery	<u>216,883,021</u>	<u>2,086,974</u>	<u>6,339,859</u>	<u>(1,821,926)</u>	<u>223,487,928</u>
Total depreciable assets	1,536,415,773	6,001,537	49,378,907	(4,810,223)	1,586,985,994
Less accumulated depreciation	<u>(608,403,065)</u>	<u>(40,933,515)</u>	<u>--</u>	<u>2,649,265</u>	<u>(646,687,315)</u>
Total depreciable assets - net	928,012,708	(34,931,978)	49,378,907	(2,160,958)	940,298,679
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	<u>200,954,039</u>	<u>46,026,489</u>	<u>(59,409,727)</u>	<u>--</u>	<u>187,570,801</u>
Capital assets - net	\$ <u>1,161,339,811</u>	\$ <u>11,094,511</u>	\$ <u>(10,030,820)</u>	\$ <u>(2,160,958)</u>	\$ <u>1,160,242,544</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE D - CAPITAL ASSETS (Continued)

	Balance July 1, 2007	Additions	Transfers	Retirements	Balance June 30, 2008
Depreciable assets					
Infrastructure	\$ 1,134,210,892	\$ 11,866,360	\$ 30,817,293	\$ (2,543,507)	\$ 1,174,351,038
Buildings and improvements	138,134,200	18,207	7,433,817	(404,510)	145,181,714
Equipment and machinery	<u>206,648,819</u>	<u>6,413,232</u>	<u>5,740,476</u>	<u>(1,919,506)</u>	<u>216,883,021</u>
Total depreciable assets	1,478,993,911	18,297,799	43,991,586	(4,867,523)	1,536,415,773
Less accumulated depreciation	<u>(571,125,761)</u>	<u>(40,462,978)</u>	<u>--</u>	<u>3,185,674</u>	<u>(608,403,065)</u>
Total depreciable assets - net	907,868,150	(22,165,179)	43,991,586	(1,681,849)	928,012,708
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	<u>202,689,932</u>	<u>55,710,901</u>	<u>(57,446,794)</u>	<u>--</u>	<u>200,954,039</u>
Capital assets - net	\$ <u>1,142,931,146</u>	\$ <u>33,545,722</u>	\$ <u>(13,455,208)</u>	\$ <u>(1,681,849)</u>	\$ <u>1,161,339,811</u>

Depreciation of \$1,497,347 and \$1,429,036 was allocated to various functions and not to depreciation expense in fiscal year 2009 and 2008, respectively.

The Board received \$17,331 and \$168,730 in proceeds from the sale of capital assets in fiscal year 2009 and 2008, respectively.

NOTE E - BONDS PAYABLE

At June 30, 2009 and 2008, bonds payable consisted of the following:

	<u>2009</u>	<u>2008</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 4.25% to 5.5%.	\$ <u>14,655,000</u>	\$ <u>15,995,000</u>
Balance forward	\$ <u>14,655,000</u>	\$ <u>15,995,000</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE E - BONDS PAYABLE (Continued)

	<u>2009</u>	<u>2008</u>
Balance carried forward	\$ 14,655,000	\$ 15,995,000
Water System Revenue Bonds, Series 2004, annual principal due commencing July 1, 2005, ranging from \$2,080,000 to \$6,245,000 through July 1, 2033, with interest ranging from 3% to 5%.	84,095,000	86,110,000
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	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 5% to 5.25%.	<u>43,615,000</u>	<u>46,170,000</u>
	307,560,000	313,470,000
Add unamortized premium	6,393,774	6,932,146
Less unamortized discount	(128,730)	(134,581)
Less deferred loss on refunding	(2,158,054)	(2,260,040)
Less current portion	<u>(6,165,000)</u>	<u>(5,910,000)</u>
Noncurrent portion	\$ <u>305,501,990</u>	\$ <u>312,097,525</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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE E - BONDS PAYABLE (Continued)

Bonds payable activity during 2009 and 2008, were as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Water System Revenue Bonds:					
Series 2001	\$ 15,995,000	\$ --	\$ (1,340,000)	\$ 14,655,000	\$ 1,405,000
Series 2004	86,110,000	--	(2,015,000)	84,095,000	2,080,000
Series 2006A	165,195,000	--	--	165,195,000	--
Series 2006B	<u>46,170,000</u>	<u>--</u>	<u>(2,555,000)</u>	<u>43,615,000</u>	<u>2,680,000</u>
	<u>\$ 313,470,000</u>	<u>\$ --</u>	<u>\$ (5,910,000)</u>	<u>\$ 307,560,000</u>	<u>\$ 6,165,000</u>

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Water System Revenue Bonds:					
Series 2001	\$ 17,280,000	\$ --	\$ (1,285,000)	\$ 15,995,000	\$ 1,340,000
Series 2004	88,075,000	--	(1,965,000)	86,110,000	2,015,000
Series 2006A	165,195,000	--	--	165,195,000	--
Series 2006B	<u>48,610,000</u>	<u>--</u>	<u>(2,440,000)</u>	<u>46,170,000</u>	<u>2,555,000</u>
	<u>\$ 319,160,000</u>	<u>\$ --</u>	<u>\$ (5,690,000)</u>	<u>\$ 313,470,000</u>	<u>\$ 5,910,000</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>
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	7,005,000	13,777,000	20,782,000
2014	7,320,000	13,460,000	20,780,000
2015 - 2019	42,180,000	61,728,000	103,908,000
2020 - 2024	54,165,000	50,114,000	104,279,000
2025 - 2029	69,450,000	35,308,000	104,758,000
2030 - 2034	79,460,000	16,725,000	96,185,000
2035 - 2037	<u>28,670,000</u>	<u>2,198,000</u>	<u>30,868,000</u>
Total	<u>\$ 307,560,000</u>	<u>\$ 236,347,000</u>	<u>\$ 543,907,000</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE E - BONDS PAYABLE (Continued)

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, 2009 and 2008, the outstanding 1992 Series defeased bonds amounted to \$18,560,000 and \$20,645,000, respectively.

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, 2009 and 2008, 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.

During the fiscal year ended June 30, 2009, the rating of surety bonds for the Series 2001, Series 2004 and Series 2006B bonds fell below levels required by the Water System Revenue Bonds Bond Resolution No. 717, 2001. As such, the Board was required to set aside approximately \$13,957,000 in order to cure the violation. These funds are restricted and are not available for operating purposes.

NOTE F - NOTES PAYABLE

The Board's notes payable as of June 30, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Notes payable to Department of Health		
Note payable in semi-annual installments of approximately \$48,500, including interest at .10%, secured by net revenues of the Board, due June 2025.	\$ <u>1,537,790</u>	\$ <u>1,567,706</u>
Balance forward	\$ <u>1,537,790</u>	\$ <u>1,567,706</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE F - NOTES PAYABLE (Continued)

	<u>2009</u>	<u>2008</u>
Balance carried forward	\$ 1,537,790	\$ 1,567,706
Notes payable to Department of Health (Continued)		
Note payable in semi-annual installments of approximately \$101,800, including interest at .31%, secured by net revenues of the Board, due November 2025.	3,273,714	3,466,772
Note payable in semi-annual installments of approximately \$10,200, including interest at .10%, secured by net revenues of the Board, due January 2027.	354,809	374,902
Note payable in semi-annual installments of approximately \$301,000 including interest at .10%, secured by net revenues of the Board, due February 2026.	10,146,515	10,408,851
Non-interest bearing payable in semi-annual installments of approximately \$74,900, secured by net revenues of the Board, due September 2025.	2,473,453	2,623,359
Note payable in semi-annual installments of approximately \$28,800 including interest at .01%, secured by net revenues of the Board, due March 2028.	1,093,233	--
Note payable in semi-annual installments of approximately \$70,200 including interest at .01%, secured by net revenues of the Board, due August 2027.	2,595,882	--
Note payable in semi-annual installments of approximately \$48,500 including interest at .01%, secured by net revenues of the Board, due March 2028.	<u>1,839,485</u>	<u>--</u>
Balance forward	\$ <u>23,314,881</u>	\$ <u>18,441,590</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE F - NOTES PAYABLE (Continued)

	<u>2009</u>	<u>2008</u>
Balance carried forward	\$ 23,314,881	\$ 18,441,590
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>2,060,820</u>	<u>2,142,275</u>
	25,375,701	20,583,865
Less current maturities	<u>1,421,104</u>	<u>1,099,600</u>
	\$ <u>23,954,597</u>	\$ <u>19,484,265</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>
2010	\$ 1,421,100	\$ 125,400	\$ 1,546,500
2011	1,436,700	119,800	1,556,500
2012	1,442,500	114,000	1,556,500
2013	1,448,600	107,900	1,556,500
2014	1,454,900	101,700	1,556,600
2015 - 2019	7,378,200	404,600	7,782,800
2020 - 2024	7,578,900	204,000	7,782,900
2025 - 2029	<u>3,214,801</u>	<u>15,500</u>	<u>3,230,301</u>
	\$ <u>25,375,701</u>	\$ <u>1,192,900</u>	\$ <u>26,568,601</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE G - OTHER LONG-TERM LIABILITIES

The following is a summary of changes in other long-term liabilities during the fiscal years ended June 30, 2009 and 2008:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Customer advances	\$ 6,702,021	\$ 3,843,919	\$ (7,016,180)	\$ 3,529,760	\$ --
Accrued vacation	6,770,308	2,370,097	(2,090,933)	7,049,472	2,090,933
Accrued workers' compensation	1,680,503	1,034,520	(858,413)	1,856,610	--
Notes payable	20,583,865	6,056,375	(1,264,539)	25,375,701	1,421,104
Other postemployment benefits	1,438,000	7,600,000	(5,205,502)	3,832,498	--
Other	8,704,529	7,367,177	(13,988,288)	2,083,418	--
	<u>\$ 45,879,226</u>	<u>\$ 28,272,088</u>	<u>\$ (30,423,855)</u>	<u>\$ 43,727,459</u>	<u>\$ 3,512,037</u>

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
Customer advances	\$ 8,210,019	\$ 8,238,011	\$ (9,746,009)	\$ 6,702,021	\$ --
Accrued vacation	6,616,449	2,326,147	(2,172,288)	6,770,308	2,172,288
Accrued workers' compensation	1,650,556	762,525	(732,578)	1,680,503	--
Notes payable	16,054,653	5,433,991	(904,779)	20,583,865	1,099,600
Other postemployment benefits	--	7,338,000	(5,900,000)	1,438,000	--
Other	11,712,472	6,036,162	(9,044,105)	8,704,529	--
	<u>\$ 44,244,149</u>	<u>\$ 30,134,836</u>	<u>\$ (28,499,759)</u>	<u>\$ 45,879,226</u>	<u>\$ 3,271,888</u>

NOTE H - NET ASSETS

At June 30, 2009 and 2008, net assets consisted of the following:

	2009	2008
Invested in capital assets - net of related debt		
Capital assets - net	\$ 1,160,242,544	\$ 1,161,339,811
Less water system revenue bonds payable, noncurrent portion	(305,501,990)	(312,097,525)
Less other loans payable	(23,954,597)	(19,484,265)
Add unspent debt proceeds	14,527,907	30,061,884
	<u>\$ 845,313,864</u>	<u>\$ 859,819,905</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE H - NET ASSETS (Continued)

	<u>2009</u>	<u>2008</u>
Restricted for capital activity and debt service		
Restricted cash and cash equivalents	\$ 15,456,032	\$ 21,680,745
Restricted investments	41,617,456	36,830,620
Less unspent debt proceeds	(14,527,907)	(30,061,884)
Less		
Contracts payable, including retainages	(6,329,591)	(5,270,513)
Accrued interest payable	(7,586,053)	(7,655,489)
Bonds payable, current portion	(6,165,000)	(5,910,000)
Notes payable, current portion	(1,421,104)	(1,099,600)
Other payable from restricted assets	<u>(587,947)</u>	<u>(587,947)</u>
	<u>20,455,886</u>	<u>7,925,932</u>
Unrestricted	<u>113,935,114</u>	<u>114,896,043</u>
	<u>\$ 979,704,864</u>	<u>\$ 982,641,880</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 professional standards, 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 and the long period of time over which the properties were acquired.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE I - LEASES (Continued)

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, 2009, approximated the following:

<u>Fiscal Year Ending June 30,</u>	<u>Minimum Future Rental Payments</u>	<u>Less Sublease Income</u>	<u>Net Minimum Future Rental (Income) Expense</u>
2010	\$ 158,600	\$ 192,900	\$ (34,300)
2011	158,600	194,200	(35,600)
2012	158,600	180,700	(22,100)
2013	158,600	130,600	28,000
2014	158,600	113,900	44,700
2015 - 2019	792,800	529,100	263,700
2020 - 2024	792,800	500,000	292,800
2025 - 2029	191,600	500,000	(308,400)
2030 - 2031	<u>--</u>	<u>200,000</u>	<u>(200,000)</u>
	\$ <u>2,570,200</u>	\$ <u>2,541,400</u>	\$ <u>28,800</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, 2010, relating to the billing and collection of sewer service charges. Fees related to these services were negotiated at approximately \$1,830,000 and \$700,000 for the fiscal years ended June 30, 2009 and 2008, 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 - The Board has an agreement with the City to pay a Central Administrative Services Expense (CASE) fee for treasury, personnel, purchasing, and other services that the City provides to the 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, 2009 and 2008, CASE fees totaled \$2,500,000 and \$2,000,000, respectively.

Amount from the City - Amounts due from the City approximated \$1,263,219 and \$1,902,200 as of June 30, 2009 and 2008, respectively, and is included in other receivables.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE J - RELATED PARTY TRANSACTIONS (Continued)

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 these projects. At June 30, 2009 and 2008, payments to the City totaled \$-0- and \$146,613, respectively.

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. During the fiscal years ended June 30, 2009 and 2008, the City advanced approximately \$4,061,561 and \$3,319,000, respectively, to the Board for the City's share of total project expenses. At June 30, 2009 and 2008, approximately \$94,513 and \$6,134,000, respectively, of these funds have not been expended. Accordingly, the balances are 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 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, 2009 and 2008**

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, 2008, employer contribution rates are a fixed percentage of compensation, generally 15.0% for most covered employees. The Board's contributions to the ERS as of June 30, 2009, 2008, and 2007, were approximately \$4,928,000, \$4,242,000 and \$4,111,000, respectively, which represented approximately 15%, 13.8% and 13.8% of the Board's covered payroll for the fiscal years ended June 30, 2009, 2008, and 2007, 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), an agent multiple-employer plan 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, 2009 and 2008**

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.

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

For the fiscal years ended June 30, 2009 and 2008, the components of the Board's annual OPEB costs, the amounts contributed to the plan and the changes to the Board's net OPEB obligation are summarized as follows:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 7,577,000	\$ 7,338,000
Interest on net OPEB obligation	101,000	--
Adjustment to annual required contribution	<u>(78,000)</u>	<u>--</u>
Annual OPEB cost	7,600,000	7,338,000
Contributions made	<u>(5,206,000)</u>	<u>(5,900,000)</u>
Increase in net OPEB obligation	2,394,000	1,438,000
Net OPEB obligation at beginning of fiscal year	<u>1,438,000</u>	<u>--</u>
Net OPEB obligation at end of fiscal year	\$ <u>3,832,000</u>	\$ <u>1,438,000</u>
Percentage of annual OPEB cost contributed	69%	80%

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE K - EMPLOYEE BENEFIT PLANS (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	\$ --	\$ 94,188,000	\$ 94,188,000	0%	\$ 29,115,000	323%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As 2008 was the first year of implementation of GASB Statement No. 45, and only one actuarial valuation has been completed, there is no trend information available.

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

In the July 1, 2007, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a blended discount rate of 7% until 2010 and 8% thereafter, which was based on the Board's anticipated funding level. Actuarial assumptions also included an annual health cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% after 5 years and projected salary increases of 3.5%. The unfunded actuarial accrued liability is being amortized over a thirty year period as a level percentage of projected payroll on an open basis.

The EUTF issues a stand-alone financial report that includes financial statements and required supplementary information, which may be obtained at the following address: State of Hawaii Employer-Union Health Benefits Trust Fund, 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE L - COMMITMENTS

At June 30, 2009 and 2008, accumulated sick leave aggregated approximately \$20,788,000 and \$20,112,000, 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 \$82,719,000 and \$113,790,000 at June 30, 2009 and 2008, respectively. 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.

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. The estimated liability is presented at its net present value using a discount rate of 3%.

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

Arbitrage

The Board is required to annually calculate rebates to the U.S. Treasury on revenue bond issues. In accordance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amounts by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. Management believes that it is reasonably possible that the Board incurred an arbitrage rebate liability in connection with the Board's Series 2006A water system revenue bonds. Management estimates that the rebate liability could approximate \$922,000. In the opinion of management, no other arbitrage rebate liabilities at June 30, 2009 and 2008, if any, are material to the financial statements.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE M - CONTINGENCIES (Continued)

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 effect 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 primarily 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, 2009 and 2008, 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
Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS
June 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	\$ --	\$ 94,188,000	\$ 94,188,000	0%	\$ 29,115,000	323%

**Board of Water Supply
City and County of Honolulu
SUPPLEMENTARY SCHEDULE FOR BONDS PAYABLE
June 30, 2009**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2009</u>
Water System Revenue Bonds					
Series 2001					
	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>14,655,000</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, 2009**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2009</u>
Water System Revenue Bonds					
Series 2004					
Uninsured Serial Bonds:	3.000%	1/28/2004	7/1/2009	(2)	2,080,000
Insured Serial Bonds:	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	42,215,000
					<u>\$ 84,095,000</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, 2009

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2009</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	10,040,000
					<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, 2009

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2009</u>
Water System Revenue Bonds					
Series 2006B (AMT)					
Insured Serial Bonds:	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>43,615,000</u>
					\$ <u>307,560,000</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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
REVENUES		
Water sales	\$ 135,243,214	\$ 128,123,969
Interest	5,677,856	8,370,285
Other	<u>4,317,643</u>	<u>3,953,427</u>
Total revenues	<u>145,238,713</u>	<u>140,447,681</u>
DEDUCTIONS		
Operating expenses	149,881,298	148,048,506
Less depreciation expense	<u>(40,933,515)</u>	<u>(40,462,978)</u>
Total deductions	<u>108,947,783</u>	<u>107,585,528</u>
Net revenues	\$ <u>36,290,930</u>	\$ <u>32,862,153</u>
NET REVENUE REQUIREMENT		
Greater of:		
1) Aggregate debt service	\$ 20,913,800	\$ 20,899,694
Required deposits	<u>4,580,154</u>	<u>9,376,897</u>
	\$ <u>25,493,954</u>	\$ <u>30,276,591</u>
2) Aggregate debt service	\$ 20,913,800	\$ 20,899,694
	x <u>1.20</u>	x <u>1.20</u>
	\$ <u>25,096,560</u>	\$ <u>25,079,633</u>
Net revenue requirement	\$ <u>25,493,954</u>	\$ <u>30,276,591</u>
Net revenue to aggregate debt service ratio	<u>1.74</u>	<u>1.57</u>