### MINUTES

# REGULAR MEETING OF THE BOARD OF WATER SUPPLY

November 25, 2013

At 2:00 PM on November 25, 2013 in the Board Room of the Public Service Building at 630 South Beretania Street, Honolulu, Hawaii, Board Chair Miyashiro called to order the Regular Meeting.

Present: Duane R. Miyashiro, Board Chair

Mahealani Cypher, Vice Chair

Adam C. Wong

Theresia C. McMurdo (arrived at 2:03 p.m.,

left at 3:44 p.m.) David C. Hulihee Ross S. Sasamura

Glenn M. Okimoto (left at 4:19 p.m.)

Also Present: Ernest Lau, Manager and Chief Engineer

Ellen Kitamura, Deputy Manager and Chief Engineer

Tracy Burgo
Alex Ubiadas
Duke Chung
Barry Usagawa
Marc Chun
Karen Tom
Paul Kikuchi
Stuart Wong

Henderson Nuuhiwa

Neil Oyama Teri Akana

Others Present: Krishna Jayaram, Deputy Corporation Counsel

Marilyn Ushijima, Deputy Corporation Counsel

Cindy Yee, Accuity LLP Sean Mochizuki, Accuity LLP Chris Ichiki, Accuity LLP

Michael Hernandez-Soria, Hawaiian Cool Water LLC

Gordon Pang, Honolulu Star-Advertiser

Matt Caires, City Council

Dan Purcell

APPROVAL OF MINUTES	Approval of the Minutes of the Regular Meeting held on October 28, 2013
MOTION TO APPROVE	Mahealani Cypher and Ross Sasamura motioned and seconded, respectively, to approve the Minutes of the Regular Session Meeting of October 28, 2013. The motion was unanimously carried.

ADOPTION OF RESOLUTION NO. 839, 2013 Chairman and Members
Board of Water Supply
City and County of Honolulu
Honolulu, Hawaii 96843
Chairman and Members:

Subject:

Adoption of Resolution No. 839, 2013, Acceptance of Gift to the Board of Water Supply from Hawaii Energy in Support of Pumping Unit Efficiency Training and Energy Conservation Program Development

We recommend acceptance of the proposed gift to the Board of Water Supply (BWS), City and County of Honolulu, from Hawaii Energy in support of our energy efficiency and conservation efforts via the Conservation Branch of the Water Resources Division. The donor's total value of this gift is \$10,611.05.

The BWS' Conservation Branch has historically emphasized water conservation. In recent years, the Branch has also been emphasizing the mutually beneficial relationship between water and energy conservation – recognizing that a considerable amount of water is needed to create energy, and a substantial amount of electrical energy is needed to pump, treat, store and deliver water. The 2013 Water Conservation Week Poster and Poetry Contest's theme "Save Water, Save Energy," of which Hawaii Energy was a partner, was one of the first public manifestations of that message. The Pumping Unit Efficiency Training, conducted by Hawaii Energy, is a technical component of this message. The BWS is currently the fifth largest consumer of electricity from the Hawaiian Electric Company. Therefore, the Conservation Branch is looking to develop its program to create new initiatives to reduce the use of energy.

This donation from Hawaii Energy will help the BWS develop a program to assess the efficiency of all its pumping units, island wide. With over 380 pumping units, this equipment, along with the training provided by Hawaii Energy, will help determine the logistical issues to accomplish this task.

We deeply appreciate the continued support of this Board for this very valuable and worthwhile energy conservation program. Not only does reducing our energy use reduce the operating cost of the BWS, it also helps conserve our natural resources.

Respectfully submitted,

/s/ ERNEST Y. W. LAU, P.E. Manager and Chief Engineer

Attachment"

#### DISCUSSION:

Manager Lau replied to Board Member Okimoto's inquiry stating that Hawaii Energy is a contractor to the Public Utilities Commission and they administer the public benefits program.

Marc Chun of the Water Resources Division replied to Chair Miyashiro's inquiry by explaining that the Pumping Unit Efficiency training consists of both the equipment donated by Hawaii Energy as well as training provided to BWS staff by Hawaii Energy. The training taught BWS staff how to measure how well the pumping units run and how to assess if they are operating as efficiently as the pumping units should be. If they're not, then a replacement program will be developed.

MOTION TO ADOPT RESOLUTION NO. 839, 2013 Mahealani Cypher motioned to adopt Resolution No. 839, 2013, Acceptance of Gift to the Board of Water Supply from Hawaii Energy in Support of Pumping Unit Efficiency Training and Energy Conservation Program Development. The motion was seconded by David Hulihee and unanimously carried.

RESOLUTION NO. 839, 2013, ACCEPTANCE OF GIFT TO THE BOARD OF WATER SUPPLY FROM HAWAII ENERGY IN SUPPORT OF PUMPING UNIT EFFICIENCY TRAINING AND ENERGY CONSERVATION PROGRAM DEVELOPMENT, ADOPTED ON NOVEMBER 25, 2013

	AYE	NO	COMMENT
DUANE R. MIYASHIRO	Х		
MAHEALANI CYPHER	Х		
THERESIA C. MCMURDO			ABSENT
ADAM C. WONG	Х		
DAVID C. HULIHEE	Х		
ROSS S. SASAMURA	Х		
GLENN M. OKIMOTO	x		

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

#### **RESOLUTION NO. 839, 2013**

ACCEPTANCE OF GIFT TO
THE BOARD OF WATER SUPPLY
FROM HAWAII ENERGY
IN SUPPORT OF PUMPING UNIT EFFICIENCY TRAINING
AND ENERGY CONSERVATION PROGRAM DEVELOPMENT

WHEREAS, the Board of Water Supply's (BWS) Conservation Program seeks to promote water conservation and energy conservation – recognizing the symbiotic relationship between water and energy, such that a considerable amount of water is needed to create energy, and a substantial amount of electrical energy is needed to pump, treat, store and deliver water; and

WHEREAS, the BWS may accept gifts to the Department as long as it does not provide special consideration, treatment, advantage, privilege, or exemption for or coerces a potential donor; and

WHEREAS, Hawaii Energy is offering a gift of energy efficiency data acquisition and logging equipment totaling \$10,611.05 for the BWS to use to develop its Pumping Unit Efficiency assessment program; and

WHEREAS, the gift to the BWS is beneficial because assessing and increasing the efficiency of all of the BWS pumping units on the island could result in significant energy savings; now, therefore,

BE IT RESOLVED that the BWS hereby accepts the gift valued at \$10,611.05 and directs the Manager and Chief Engineer, or his delegate, to accept and thank the donor for this gift.

ADOPTED:

DUANE R. MIYASHIRO

Chairman

Honolulu, Hawaii November 25, 2013 TOPICS FOR FUTURE BOARD MEETINGS Chairman and Members Board of Water Supply City and County of Honolulu Honolulu, Hawaii 96843

Chairman and Members:

Subject: Topics for Future Board Meetings

We would like to take this time to allow the members of the Board to inform us of any topic or concern pertaining to Board of Water Supply operations that the Board would want addressed at future Board Meetings.

The following is a list of pending topics requested by the Board with a tentative timetable of when the topics will be presented:

TOPIC	TENTATIVE TIMETABLE				
Board of Water Supply     Human Resources Plan	November 25, 2013				
2. Estimated Billing Update	November 25, 2013				
<ol> <li>Effects of sea level rise to Board of Water Supply's operations and any possible impacts to the Beretania pump station</li> </ol>	January 2014				

Respectfully submitted,

/s/ ERNEST Y. W. LAU, P.E. Manager and Chief Engineer"

DISCUSSION:

Mr. Miyashiro requested that this action item be presented quarterly instead of monthly, beginning February 2014, and quarterly thereafter.

Mr. Miyashiro informed the Board that if they want an item placed on the agenda to contact him or Mr. Lau, as they discuss the agenda prior to each meeting. Mr. Lau and the Board Members agreed.

FINANCIAL STATEMENTS AND SUPPLEMENTARY

INFORMATION

Chairman and Members Board of Water Supply City and County of Honolulu Honolulu, Hawaii 96843

Chairman and Members:

Subject:

Financial Statements and Supplementary Information with Independent Auditors' Report, Fiscal Years Ended June 30,

2013 and 2012

Our auditors, Accuity LLP, have completed the audit of the financial statements and federal awards of the Board of Water Supply and issued an unmodified opinion. They have indicated that there is one significant deficiency on internal control over financial reporting. A corrective action statement to address this deficiency was incorporated into the audit report.

Attached is a copy of the financial statements of the Board of Water Supply and the report thereon by Accuity LLP, covering the results of their examination of the accounts and financial status of the Board of Water Supply for the years ended June 30, 2013 and 2012, as required under Article VII, Section 7-108 of the Revised Charter. The auditors' SAS 114 required communication letter dated June 30, 2013 is also attached.

Cindy Yee and Sean Mochizuki from Accuity LLP will present highlights from the auditors' report.

Respectfully submitted,

/s/ ERNEST Y. W. LAU, P.E. Manager and Chief Engineer

Attachments"

The foregoing was for information only.

DISCUSSION:

Cindy Yee from Accuity LLP gave the presentation. She reported on internal control deficiencies stating that there were no material weaknesses; however, there was one significant deficiency related to Information Technology (IT), which is reported in the Single Audit Report. Mr. Okimoto requested more detail on the deficiency. Ms. Yee explained that as part of their audit, they looked at general controls in relation to IT and came across various areas such as procedures, policies, change management and security that could be improved (e.g. ensuring that there are proper monitoring and follow up of exceptions identified in reports). Another example relating to security is the need to strengthen user passwords into the system. Ms. Yee responded to Board Member Wong's inquiry stating

that these things did exist in some areas but not in all areas Department wide.

To get a better understanding of the deficiencies, Ms. Yee referred the Board to page 10 under Compliance and Internal Control Over Financial Reporting of the Single Audit of Federal Financial Assistance Programs Report, where it includes a list of deficiencies and Accuity's corrective action recommendations.

Board Member McMurdo asked Accuity to explain what they mean by lack of adequate user involvement in deriving bill estimation requirement, under System Migration on page 11. Chris Ichiki from Accuity LLP clarified that under System Migration, "user" refers to BWS divisions and "business" refers to BWS. Mr. Ichiki explained that BWS did a lot of validation procedures and one was the bill validation process to determine how bills would be generated, estimated, calculated, etc. When looking into the bill calculation process, Accuity felt that there should have been more involvement with the different BWS divisions in this process.

Mr. Wong questioned if this IT audit was done due to the issues the Department is facing with the estimated bills or was it done independently. Mr. Ichiki replied that they knew that the estimation issue could be a concern to the audit so they wanted to understand and learn about it. Mr. Wong asked if the bullet points under System Migration were specifically at fault for the issues the Department faces now with the estimated billing. Mr. Ichiki explained that Accuity did not dive too deeply into IT controls because it is not part of the financial audit approach for general controls. He replied to Mr. Miyashiro's inquiry stating that they did not do any forensic analysis for root cause and that these were just Accuity's observations and are not conclusive. Ms. Yee added that it was normal for Accuity to review IT procedures related to a significant system conversion.

Mr. Miyashiro questioned if Accuity's statement, "Management's estimates were evaluated and appeared to be reasonable," included estimated billing. Ms. Yee confirmed that the statement included estimated billing. They performed testing as of June 30, 2013 on various analytical audit procedures to confirm that the revenue was reasonable.

In response to Ms. McMurdo's request to go over the Department's corrective action plan, Information Technology Program Administrator Henderson Nuuhiwa referred to page 11 and explained how BWS is following up on each item recommended by Accuity.

 Formally hold management steering committee meetings for IT on a monthly or bi-monthly basis.

The management steering committee is scheduled for December 4, 2013. This will be the initiation meeting involving all of the BWS division heads, the Manager and the Deputy. The meeting will set the stage for subsequent meetings and will review the IT strategic plan, which was completed at the end of last fiscal year and was released when Accuity

was in the process of doing their audit. It is a five-year strategic plan covering up to 2018. It will deal with ongoing projects, prioritization, risks, the charter of the steering committee, and the frequency of meetings.

Update IT policies and procedures to include internal control procedures.

This is ongoing for some of the issues that were raised by the audit and is being looked at as part of the strategic plan for IT. The goal is to have a more complete implementation of policies across the organization, not just with respect to answering the audit findings, but a more complete and consistent implementation of policies within the entire Department.

Identify methods to ensure IT policies and procedures are consistently followed.

Right now procedures and policies and not clearly articulated, so the Department will work on methods to ensure policies and procedures are consistently followed and that there is accountability.

Remove user access that is not commensurate with job responsibilities.

This was completed when Accuity completed their audit.

5. Implement formal change management policies and procedures.

The philosophies may differ in the different sections in the IT Division; however, the policies need to be the same. Change management needs to be consistent within the IT Division but also within the entire organization.

6. Identify methods to ensure change management policies and procedures are consistently followed.

Methods of implementation could be different but the philosophy and policy need to be the same - how change is managed, how change progress and escalation is reported, etc. This is not the case right now and needs to be worked on.

Perform formal system restoration testing.

There is currently restoration testing in place, however, the Department was cited because users are not engaged in this testing. Testing for users has been scheduled for the third quarter of this fiscal year.

Implement monitoring controls over batch processing.

Appropriate alerts are not in place if something is wrong with the batch processing. An alert system is currently being worked on but not fully implemented yet.

Implement a standard project management framework which includes appropriate training.

Project management with regards to IT governance of projects will be adjusted appropriately, especially with the establishment of the steering committee.

Ms. McMurdo inquired if Accuity has any role in these corrective actions and will they be part of the steering committee. Ms. Yee responded that because they are the financial auditor, there's an independence issue so they wouldn't be able to be on the steering committee but they would be meeting with IT and management throughout the year to understand what was implemented and how. Ms. McMurdo felt that it would be better to have "fresh eyes" on the committee rather than just internal members. Mr. Lau suggested possibly asking the Director of the City Department of Information Technology to be on the committee as an outside entity.

Ms. Yee continued with her presentation. At the conclusion of the presentation, Ms. McMurdo questioned Accuity on their IT expertise. Mr. Ichiki informed the Board that three auditors, including him, have IT background and are certified to do IT audits. Ms. McMurdo asked Mr. Ichiki about his IT background and if he has done any IT audits for government agencies. Mr. Ichiki responded that he has been in IT for 15 years and his other colleagues have been in IT for about 4 and 8 years. Mr. Ichiki stated that they have not done any IT audits for government agencies, only commercial organizations. Ms. McMurdo inquired if Manager Lau feels that an IT audit would be beneficial to the BWS. Mr. Lau responded saying that right now the City auditor is conducting an audit of the BWS so he would like to wait for the City auditor's recommendations and then see if it would be appropriate to hire an independent IT auditor. Ms. McMurdo asked if the City auditor was independent. Mr. Lau replied that the City auditor is independent of BWS.

Mr. Miyashiro asked Ms. Yee if the City auditor included Accuity's audit in their report, would Accuity have the opportunity to then comment on the City auditor's comments. Ms. Yee explained that if Accuity's entire report and opinions were included in a separate document, Accuity would be obligated to review it to ensure that nothing was changed.

Mr. Lau commented that this was Accuity's first time conducting BWS's audit. Mr. Lau insisted on "fresh eyes" to look at the Department's operations. Mr. Lau and Mr. Miyashiro thanked Accuity for their great job.



Quality. Integrity. Insight.

# Board of Water Supply City and County of Honolulu June 30, 2013 Audit Results

Presentation to the Board November 25, 2013

Presented by:
Cindy Yee
Sean Mochizuki
Chris Ichiki



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### **Scope of Services**

- Provide an opinion on the fair presentation of the Board of Water Supply's (BWS) financial statements.
- Consider BWS's internal control over financial reporting in relation to our audit of the financial statements.
- Perform tests of the BWS's compliance with certain provisions of laws, regulations, contracts and grant agreements in relation to the financial statements.
- Consider BWS's internal control over compliance with requirements related to major federal programs in accordance with the Office of Management and Budget (OMB) Circular A-133.





## **Financial Statement Highlights**

- Cash and cash equivalents increased by \$6 million and investments increased by \$21.3 million primarily due to the increase in net position.
- Net capital assets decreased by \$7.9 million due to write-offs and depreciation expense.
- Accounts payable increased by \$5.8 million due to timing of payments.
- Long-term debt (bonds and notes) decreased by approximately \$9.9 million due to the repayment of debt.
- Change in net position was comparable in fiscal 2013 of \$19.9 million to fiscal 2012 of \$19.4 million. The results in fiscal 2013 was primarily due to the increase in water sales of \$21.5 million due to the water rate increase of 9.65%.





- AU-C (American Institute of Certified Public Accountants professional auditing standards) Section 260 – Communication with those charged with governance in relation to an audit of financial statements. These required communications are addressed in the following pages. Our procedures and scope require communication of various matters to the individuals responsible consistent with our planned audit strategy.
- As a result of our audit procedures performed relating to the financial statements for the year ended June 30, 2013, there are no matters which came to our attention that would require further communication or action by management other than those discussed in the following pages.





Required Communications	Application to BWS
Auditor's responsibility under Generally Accepted Auditing Standards. The auditor should communicate the level of responsibility assumed for fraud and illegal acts, whether the financial statements are free of material misstatement and whether management's assessment of the effectiveness of the BWS's internal control over financial reporting is fairly stated.	Our primary responsibility as the Board of Water Supply's (BWS) independent auditor is to evaluate and report on the fairness of the BWS's financial statements prepared in accordance with generally accepted accounting principles ("GAAP"). Based upon the results of our audit, which was performed in accordance with generally accepted auditing standards and Government Auditing Standards, we issued an unmodified opinion on the BWS's financial statements.  Our responsibilities were communicated in our Contract No. C13590001 dated July 12, 2013.
Overview of the planned scope of the audit. The overview of the planned scope and timing of the audit should be communicated to those charged with governance.	This was communicated in our Contract No. C13590001 dated July 12, 2013.
Significant accounting policies, including critical accounting policies and the auditor's judgment about the quality of accounting principles. The BWS's initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus should be communicated to those charged with governance.	We believe that management has adopted appropriate and reasonable accounting policies and applied them in its financial reporting.





Required Communications	Application to BWS
Management judgments and accounting estimates. Those charged with governance should be informed about the process used by management in formulating sensitive accounting estimates and about the auditor's conclusions regarding the reasonableness of those estimates.	The more difficult and subjective judgments and estimates were:  Allowance for uncollectible receivables. Revenue estimates from meter readings. Depreciation and useful lives of capital assets. Calculation of other postemployment benefit and workers' compensation liability.  Management's estimates were evaluated and appeared to be reasonable.
Audit adjustments. All significant financial statement adjustments arising from the audit or proposed during the audit and any uncorrected misstatements that were determined to be immaterial by management individually and in the aggregate should be communicated to those charged with governance.	There were four adjusting journal entries and three reclassifying journal entries in fiscal 2013. All of these journal entries were recorded by management in the audited financial statements.  We noted two uncorrected misstatements above our de minimis during our audit which is disclosed on page 9.





Required Communications	Application to BWS
Potential effect on the financial statements of any significant risks and exposures. Those charged with governance should be aware of major risks and exposures facing the BWS and how they are disclosed.	No major risks and exposures noted.
Material uncertainties related to events and conditions, specifically going concern issues. Any doubt regarding the BWS's ability to continue as a going concern and any other material uncertainties should be communicated.	No issues related to the BWS's ability to continue as a going concern or other material uncertainties were noted.
Other information in documents containing audited financial information. Those charged with governance should be informed of the auditor's responsibility for information in a document containing audited financial statements, as well as of any procedures performed and the results.	We are unaware of any documents that will be submitted containing the audited financial statements.
Disagreements with management. Disagreements with management, whether or not satisfactorily resolved, about matters that could be significant to the BWS's financial statement or the auditor's report should be communicated.	No such matters noted.
Consultation with other accountants. When the auditor is aware that management has consulted with other accountants about significant accounting or auditing matters, the auditor's view about the consultation subject should be communicated to those charged with governance.	We know of no such consultations made by management.





Required Communications	Application to BWS
Major issues discussed with management prior to retention.  Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention should be communicated.	There were none.
Difficulties encountered in performing the audit. Serious difficulties encountered in dealing with management that related to the performance of the audit are required to be brought to the attention of those charged with governance.	There were no serious difficulties encountered in performing the audit.
Internal control deficiencies. Those charged with governance should be informed of any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditor's attention during the audit.	There were no material weaknesses; however, there was one significant deficiency related to information technology which is reported in the Single Audit Report.
Fraud and illegal acts. Fraud or illegal acts involving senior management, or those responsible for internal controls, or causing a material misstatement of the financial statements where the auditor determines there is evidence that such fraud may exist should be communicated. Any illegal acts coming to the auditor's attention involving senior management and any other illegal acts, unless clearly inconsequential.	We are not aware of any fraud or illegal acts.





Required Communications	Application to BWS				
Other material written communications.					
Management representation letter.	Management representation letter is available upon request.				
Internal Control and Business Issues Report.	There were none.				
Engagement letter.	Contract is available upon request.				





# **Summary of Uncorrected Misstatements**

			Statement of Net Position				Statement of Revenues, Expenses, and Changes in Net Position			
SUD				Invested in Capital	Restricted for Capital Activity			Diffe	rences	
No.	<u>Description</u>	Assets	Liabilities	Assets	& Debt Service	Unrestricted	Known	Proj.	Est.	Total
1 2	To properly state the electricity expense incurred in fiscal year 2012.  To properly state work in progress that was expensed in fiscal year 2012.			(860,448)		1,217,595	(1,217,595) 860,448			(1,217,595
Total L	Incorrected Misstatements			(860,448)		1,217,595	(357,147)			(357,147
	cial Statement Amounts		(341,222,603)	(843,769,821) 0.1%	(26,635,550) 0.0%	(178,388,330) -0,7%				(19,873,246 1.8%





# Audit Plan for June 30, 2014 - Timeline

Discussion with management to understand any key risks or areas of focus for current year	May 2014
Planning	June 2014
Year-end financial statement fieldwork	September 2014
Draft report to management	October 6, 2014
Issue final report	October 18, 2014







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# Board of Water Supply City and County of Honolulu

Financial Statements and Supplementary Information June 30, 2013 and 2012

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The Board of Water Supply of the City and County of Honolulu (the "BWS") is pleased to present its Annual Financial Report for the fiscal year 2013. This introduction provides an overview of the mission, organization and operations of the BWS. The following management's discussion and analysis is intended to provide the reader with an easily understandable analysis of the BWS's financial performance and all aspects of its financial position. Financial statements presenting the financial position and changes in financial position of the BWS is in conformity with accounting principles generally accepted in the United States of America, accompanied by the independent auditors' report.

#### Organization and Business

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

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

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

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

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

The BWS services 175,921 accounts and a residential population of 976,372. 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, 160,312 are residential (91.1%), representing 60.1% of the total amount received from water sales in fiscal year 2013; 14,589 are commercial and industrial (8.3%), representing 39.3% of the total amount received from water sales in fiscal year 2013; and 1,020 are agricultural (0.6%).

The BWS provides potable quality water at reasonable rates, while managing the long-term viability of Oahu's water resources and protecting the environment. In addition to providing potable water of 145 million gallons per day ("mgd"), the BWS is capable of delivering approximately 10 mgd of recycled water for irrigation of various golf courses, landscaped areas in Ewa, and for industrial processing in Campbell Industrial Park.

#### Mission

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

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

- Resource sustainability ensures that natural groundwater supplies are protected and managed efficiently.
- **Economic sustainability** calls for a sound financial strategy to support the BWS's 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 BWS's customers and the community.

#### Looking Ahead

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

#### 1. Resource Sustainability

This strategic objective ensures that natural groundwater supplies are protected and managed efficiently. The BWS plans for diversified strategies and projects in conservation, potable groundwater, and alternative water supplies, including brackish, recycled and desalinated water to meet future demands. 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 to ensure the sustainability of the island's potable water supplies in a climate change future.

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

- The BWS continues its successful leak detection and repair program, proactively identifying
  and repairing leaks before they become an emergency main break. The BWS Leak Detection
  Team surveys approximately 25 to 50 miles of pipelines per month to find leaks in the
  distribution system. This has resulted in an estimated savings of approximately 3.3 mgd
  or about 1.2 billion gallons per year.
- Private development reviews and water master plans have increased island wide with a
  growing economy, especially in Kakaako and Ewa. Water master plans are or have been
  reviewed for West Kapolei, Harborside, Makaiwa Hills, University of Hawaii ("UH") West Oahu,
  Ho'opili, Koa Ridge and Kakaako. Water system infrastructure continues to expand in concert
  with these developments. Water supply is available within the City's planning horizon to 2035.

- Recycled water is an important component of a host of conservation and drought mitigation strategies to reduce potable water consumption. The BWS 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 production averaged 8.5 mgd in fiscal year 2013, which was approximately the same as the previous fiscal year. In fiscal year 2014, the BWS is anticipating the addition of the State Department of Hawaiian Home Lands' administrative complex along Kapolei Parkway, the City of Kapolei, and the Oneula and Ocean Pointe District as R-1 recycled water users. Additionally, the H-Power Plant is closer to begin using reverse osmosis demineralized recycled water for its industrial processes instead of potable water.
- The BWS continues to make progress on the regional Watershed Management Plans ("WMP") for Oahu's water resources. The Koolaupoko WMP was adopted in fiscal year 2013, while plans for North Shore, Ewa and Central Oahu WMPs are ongoing. The Waianae and Koolauloa WMPs were adopted in fiscal year 2011. These plans are the regional component of long-range strategic water plans for the City that is concurrent with the City's development and sustainable communities plan for Oahu. The WMPs provide strategic framework for watershed protection projects and water use and development for the BWS's long-range capital improvement program, ensuring that adequate water supplies and water system infrastructure will meet Oahu's future water demands.
- To analyze the possible long-term effects of climate change on Oahu's water resources, the BWS has contracted with the UH and the U.S. Geological Survey to conduct hydro-geological research to assess Oahu's diminishing rainfall trends and provide numerical groundwater modeling capability for the Pearl Harbor aquifer in a climate change future.

The BWS placed two new potable water source stations in service:

- Waimanalo Wells III This new well source station is capable of producing 0.5 mgd of water to serve East Waimanalo.
- Opana Wells This new well source station is capable of producing 1 mgd of water to serve the North Shore.
- The BWS implemented and expanded on a wide array of public information and education programs that support and reinforce efforts to educate customers about the importance of conserving water throughout the years and about other BWS programs.
- The BWS continues to ensure that the community's potable water supply complies with all Federal and State safe drinking water standards by monitoring changes in safe drinking water regulations and installing new and replacement water treatment facilities as needed.

#### 2. Economic Sustainability

The second strategic objective calls for a sound financial strategy to support the BWS's operating and capital needs. While operation and construction costs steadily increase, the BWS 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 BWS initiated work on a long-term, comprehensive Water Master Plan. The plan will
  result in the creation of a 30-year Capital Improvement Program to expand capacity of and
  systematically repair and replace aging water infrastructure. The Water Master Plan applies
  new technology and best practices in planning and engineering tools. Once created, it will
  guide the update of the BWS's financial plan to ensure sufficient funding for infrastructure
  needs while keeping water rates affordable.
- The BWS issued a Request for Proposals to develop its six-acre Beretania Street property.
   The project was initiated at the suggestion of the Honolulu City Council to allow the BWS to explore and evaluate alternative sources of revenue to reduce its reliance on ratepayer-generated funds.
- More than \$26.5 million in capital program contracts and more than \$5.5 million in professional services contracts were awarded as of June 30, 2013. The repair, replacement and improvement projects proactively address the needs of the BWS's aging infrastructure to ensure continuity of core services.
- According to the American Water Works Association, water utilities nationwide should strive for roughly 25-30 main breaks per 100 miles of pipeline. The BWS ratio was better that the national average. In fiscal year 2013, the BWS's employees responded to a total of 350 main breaks or about 17 breaks per 100 miles of pipeline.
- The BWS completed the replacement of its 15-year-old customer information and billing system with a state-of-the-art Customer Information System ("CIS"). The move to the new Customer Care & Billing ("CC&B") system offered the opportunity for the BWS to convert to a monthly billing schedule. As a result, in January 2013, the BWS launched CC&B and monthly billing. These changes presented a number of challenges, including converting residential customer accounts from bi-monthly to monthly billing, preparations involved in converting to the new system, and addressing deferred maintenance on the Automatic Meter Reading system. The BWS also completed efforts to enable customers to go online to request to initiate and terminate service, change account information, as well as view and pay their bills. The BWS hopes to implement a full service online customer portal in fiscal year 2014.
- The BWS has initiated the upgrade of its Financial Management System with a target completion of Phase I by the second quarter of fiscal year 2014. Planning for Phase II enhancements will take place concurrently with Phase I.
- In preparation for a much needed upgrade, the BWS completed an assessment of its current utilization of the Computerized Maintenance Management System. Planning for this major system upgrade project is underway, with active engagement beginning in the second quarter of fiscal year 2014 and lasting well into fiscal year 2015.

- The BWS's nationally recognized Geographic Information System ("GIS") database and applications continues to be upgraded for best in class industry functionality and performance. This system gives BWS users access to GIS layers and updated imagery, and integrates map service sharing with other City departments. Enhancements for mobile data gathering and data sharing in the cloud are underway.
- The BWS's Hydraulic Model Program effort has trained other departmental users on how to
  use new modeling software. In conjunction with the Water Master Plan project, the hydraulic
  modeling methodology for calibration is being updated, improved, and accelerated. Major
  calibration work will be taking place in fiscal year 2014.
- The BWS completed a pilot Project Information Management System project, which is designed to track the entire life cycle of BWS capital projects and Replacement and Facilities Improvement projects, as well as private projects. The resulting system is in place for a small group of users and valuable information and user requirements were gathered. This information will be utilized to plan, design and implement a Project Information Management System which improve internal controls over project management and provide broad access to a meaningful set of project status measures and supporting data.
- The BWS has brought up a second data center for new business requirements. The new data center is utilizing an existing BWS facility and resources that were previously allocated solely for disaster recovery purposes. This initiative allows the BWS to meet new business requirements with minimal investment.
- The BWS's Wireless Network Project continues deployment of site connectivity to provide high speed backbone links. A majority of the BWS sites will be connected by the end of fiscal year 2014, providing a foundation for potential migration of BWS's existing process control systems to internet protocol transport.

#### 3. Organizational Sustainability

The BWS's third objective calls for a sound, well structured, efficient organization with the tools and skills necessary to provide exceptional value for customers and the community. Maintaining a strong, flexible organization that is able to resolve economic, regulatory and service challenges requires that the BWS use aggressive as well as time-tested strategies to meet the third BWS objective of organizational sustainability.

- The BWS successfully processed more than 128,000 customer calls and inquiries regarding bill payments and delinquent bills during the fiscal year. In July 2012, the BWS also implemented a callback feature where customers can leave their phone number and would receive a callback in the order calls are received.
- With the launch of the new billing system, the BWS contracted payment services to First Hawaiian Bank who will process all payments made via mail as well as accept payments from BWS customers at their bank branches.
- On March 1, 2013, the BWS began offering customers the option to pay their bill online using a credit card with BWS ePay.

- Employee development continues to be a top priority for the BWS. Opportunities for employees to learn more about their field and to enhance their leadership and team-building skills are readily available.
- To ensure a continuing pool of qualified employees for specialized jobs, the BWS continues
  to offer Trades Apprentice Programs for Plant Electrical/Electronic Equipment Repairer and
  Pipefitter positions in the organization. Trades apprentices learn the needed skills though
  on-the-job training and evening classes at Honolulu Community College. Currently, the
  successful Pipefitter Trades Apprenticeship program graduates sufficient journey worker
  pipefitters to maintain staffing levels.
- Open communication with public employee union shop stewards of the Hawaii Government Employees Association and the United Public Workers continues to foster improved labormanagerial relationships. The meetings provide a forum where stewards are able to obtain clarification and guidance on personnel-related questions and concerns. These sessions also encourage open dialogue to address issues before they become problematic.
- The BWS continually works with the City Department of Emergency Management and Hawaii State Civil Defense to ensure it has plans and procedures in place to respond effectively to emergency situations such as a tropical cyclone, an island wide power outage, pandemic flu, tsunami, or other major events.
- Employee recognition programs are a key element to foster employee morale and encourage continuing performance excellence. These programs continue to be an important priority for BWS management.



#### Report of Independent Auditors

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

#### Report on the Financial Statements

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

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

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



TELEPHONE: 808 531 3400 FACSIMILE: 808 531 3433

#### Opinion

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

#### Emphasis of Matter

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

#### Other Matters

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 and schedule of funding progress on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information or provide any assurance.

#### Other Information

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

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

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

#### Other Auditors

The basic financial statements of the Board of Water Supply as of June 30, 2012 and for the year then ended, were audited by other auditors whose report dated October 23, 2012 expressed an unmodified opinion on those statements.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013 on our consideration of the Board of Water Supply's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BWS's internal control over financial reporting and compliance.

Honolulu, Hawaii October 25, 2013

Accenty LLP



This section presents the management's discussion and analysis of the BWS's financial condition and activities for the fiscal year ended June 30, 2013. This information should be read in conjunction with the financial statements.

#### Financial Highlights

The BWS implemented the second of five scheduled rate increases in July 2012 to meet the rising costs of delivering water to customers and to continue its infrastructure repair and replacement programs. Water rates increased by 9.65%, which equates to more than \$4 of monthly water charges for an average single-family residential customer effective July 1, 2012.

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

- Net position increased \$19.9 million in fiscal year 2013 compared to the \$19.4 million increase in fiscal year 2012.
- Total assets were \$1.4 billion, which exceeded liabilities by \$1.0 billion at June 30, 2013 and 2012.
- The BWS's unrestricted current assets at June 30, 2013 were 3.3 times its related current liabilities compared to 7.6 times at June 30, 2012.
- The BWS's debt to equity ratio was 29.0% and 30.5% at June 30, 2013 and 2012, respectively, indicating the continuance of capacity to issue additional debt.

#### Overview of Financial Report

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

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

The basic financial statements include statements of net position, statements of revenues, expenses and change in net position, statements of cash flows, and notes to the financial statements. The statements of net position present the resources and obligations of the BWS at June 30, 2013 and 2012. The statements of revenues, expenses and change in net position presents the changes in net position for the fiscal years then ended, and the resultant ending net position balances.

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

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

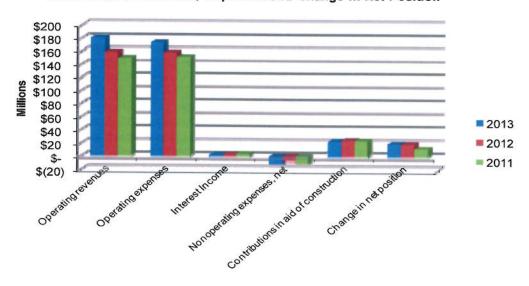
commitments, contingencies, and other significant events. Required supplementary information on postemployment benefits other than pensions and supplementary information for outstanding bonds and net revenue requirements are also included.

#### **Results of Operations**

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

	2013	2012 (in thousands)	2011
Operating revenues	\$ 180,50	5 \$ 159,508	\$ 149,894
Operating expenses			
Administrative and general	43,40	9 39,392	42,137
Depreciation	41,77	75 42,376	41,247
Power and pumping	39,24	18 33,202	28,631
Other operating expenses	49,06	6043,754	39,818
Total operating expenses	173,49	158,724	151,833
Operating income (loss)	7,01	784	(1,939)
Nonoperating revenues (expenses)			
Interest income	2,52	2,903	3,929
Others	(13,19	96) (9,499)	(14,434)
Total nonoperating expenses	(10,66	(6,596)	(10,505)
Contributions in aid of construction	23,52	25,198	24,838
Change in net position	\$ 19,87	3 \$ 19,386	\$ 12,394

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



The increase in net position for the year ended June 30, 2013 was \$19.9 million, compared to an increase of \$19.4 million for the year ended June 30, 2012.

Operating revenues for the year ended June 30, 2013 were \$180.5 million, an increase of \$21.0 million or 13.2% from the year ended June 30, 2012 revenues, due to water rate increases that were implemented on July 1, 2012. Operating revenues for the year ended June 30, 2012 totaled \$159.5 million which represented an increase of \$9.6 million or 6.4% from the year ended June 30, 2011. This increase was attributable to water rate increases that were implemented effective January 1, 2012.

Total operating expenses increased by \$14.8 million and \$6.9 million in fiscal years 2013 and 2012, respectively. Factors contributing to this change are explained below:

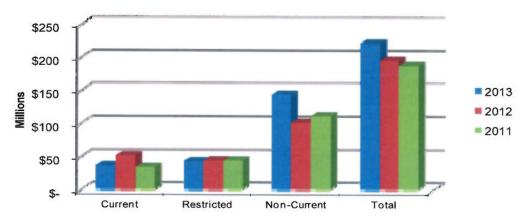
- Administrative and general expenses increased by \$4.0 million in fiscal year 2013, mainly due to an increase in project costs expensed and other contractual services. In fiscal year 2012, administrative and general expenses decreased by \$2.7 million due to a reduction in professional services, gasoline, motor vehicle parts and accessories, and other contractual services.
- Power and pumping expenses increased \$6.0 million during fiscal year 2013. This was primarily due
  to an increase in electricity costs of \$4.6 million and an increase in the repair and maintenance of
  equipment. Power and pumping expenses increased by \$4.6 million during fiscal year 2012, primarily
  due to an increase in electricity costs.
- Other operating expenses increased by \$5.3 million during fiscal year 2013, due to an increase
  in other contractual services for transmission expenditures to replace automated meter reading
  batteries. Maintenance expenses increased mainly due to an increase in project costs expensed for
  ocean cooling, pumping station, transmission and water treatment maintenance expenditures. Other
  operating expenses increased by \$3.9 million during fiscal year 2012 due to an increase in nonpotable water treatment.
- For the year ended June 30, 2013, non-operating expenses increased by \$4.1 million due primarily to
  a decrease in interest expenses that were capitalized. Non-operating expenses decreased by \$3.9
  million for the year ended June 30, 2012, due to a decrease in interest expense and losses 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 BWS's systems, except those developments that have paid for and installed a complete water system, including sources, transmission, and daily storage facilities. In addition, contributions of capital assets from governmental agencies, developers and customers are recorded as contributions in aid of construction at their cost. The BWS realized contributions in aid of construction of \$23.5 million in fiscal year 2013 compared to \$25.2 million in fiscal year 2012. The decrease in contributions in aid of \$1.7 million was due to a decrease in projects completed by governmental funds of \$2.3 million, an increase in the Water Service Facilities Charge revenue ("WSFC") of \$2.7 million offset by a decrease in private development contributions of \$2.1 million. During the year ended June 30, 2013, the major developments completed were the University of Hawaii West and Oceanpointe-Area IVA-Phase 2.

#### **Financial Condition**

#### **Condensed Statements of Net Position**

	2013 2012 (in thousands)		201 inds)		
Current assets					
Cash and cash equivalents	\$	20,404	\$ 14,354	\$	7,159
Investments		14,908	36,653		26,034
Other current assets		27,166	27,269		26,658
Restricted assets					
Cash and cash equivalents		15,197	15,682		14,975
Investments		26,686	27,681		28,532
Due from broker		1,330	<u>=</u>		
Investments		143,688	100,659		110,862
Bond issues costs		2,173	2,294		2,805
Capital assets, net	_	1,138,464	 1,146,384		1,157,677
Total assets	\$	1,390,016	\$ 1,370,976	\$	1,374,702
Current liabilities, payable from current assets Other liabilities and payables	\$	19,065	\$ 10,326	\$	11,750
from restricted assets		47,108	48,860		61,786
Bonds payable, noncurrent		275,050	 282,870		291,632
Total liabilities		341,223	342,056		365,168
Net position					
Invested in capital assets, net of related debt		843,770	842,391		834,243
Restricted for capital activity and debt service		26,635	26,410		25,609
Unrestricted		178,388	160,119		249,683
Total net position		1,048,793	1,028,920		1,009,534
Total liabilities and net position	\$	1,390,016	\$ 1,370,976	\$	1,374,702

#### Cash and Investments



The BWS's unrestricted current assets were 3.3, 7.6, and 5.1 times its related current liabilities, payable from current assets, as of June 30, 2013, 2012 and 2011, respectively. The ratio decrease at June 30, 2013 was due to the \$21.7 million decrease in unrestricted current investments as the BWS's investment portfolio mix shifted to investment holdings with maturity dates that exceeded one year. The change in the investment mix also resulted in the \$43.0 million increase in the BWS's unrestricted noncurrent investments. The net increase in the BWS's unrestricted investments is primarily due to the \$19.9 million increase in net position as of June 30, 2013. The unrestricted current asset to current liabilities, payable from current assets, ratio increased from 5.1 to 7.6 at June 30, 2012 due to a shift in the investment portfolio mix to debt security holdings with maturity dates due within one year. This shift at June 30, 2012 resulted in a \$10.2 million decrease in unrestricted noncurrent investments.

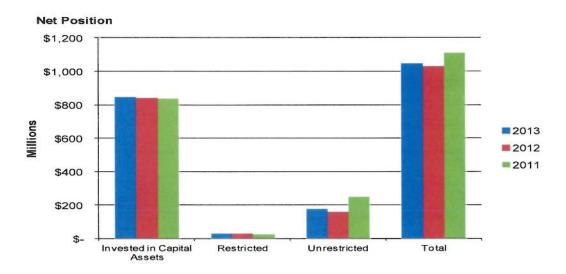
As of June 30, 2013 and 2012, capital assets, net decreased by \$7.9 million and \$11.3 million, respectively. The decreases in fiscal year 2013 and 2012 were due to construction work in progress charge-offs and depreciation charges exceeding acquisitions.

As of June 30, 2013, current liabilities payable from current assets increased by \$8.7 million or 84.6%. This increase is primarily due to the timing of payments on the BWS's trade accounts payable.

Other liabilities and payables from restricted assets decreased by \$12.9 million during fiscal year 2012. The decrease is due to principal payments made on the BWS note payables during 2012.

The BWS's noncurrent bonds payable decreased by \$7.8 million and \$8.8 million as of June 30, 2013 and 2012, respectively. These decreases represent the current bonds payable due within one year as of June 30, 2013 and 2012.

Net position increased by \$19.9 million and \$19.4 million as of June 30, 2013 and 2012, respectively. The increases were primarily due to an increase in operating revenue.



#### Capital Assets and Long-Term Debt

During fiscal years 2013 and 2012, the BWS capitalized \$70.4 million and \$31.0 million, respectively, to its utility plant in service. Major assets added in fiscal year 2013 were Farrington Highway, Part I, \$23.0 million; Customer Information System, \$14.2 million; University of Hawaii West Oahu Offsite 440' water improvements, \$7.1 million; emergency power transformer replacements, \$3.7 million; Waimanalo Well III, \$3.6 million; and Mokulua Drive 8 inch main, and Part II, \$3.0 million. Major assets added in fiscal year 2012 were Waipahu Wells III, \$6.2 million; East Kapolei Transmission Main, \$4.2 million; Kamehameha Highway Sunset Beach water system improvements, \$3.6 million; and Kamehameha Highway 8 inch Main (Kaneohe), \$2.5 million.

The BWS issues long-term bonds to finance part of its capital improvement program. The BWS's debt to equity ratio has remained fairly constant at 29.0%, 30.5% and 32.9% for fiscal years 2013, 2012 and 2011, respectively.

The BWS issued \$85,195,000 of Board of Water Supply Water System Revenue Bonds, series 2012A bonds on March 14, 2012.

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

#### Rate Covenant

The BWS is required under its bond indenture, among other things, to fix, charge and collect such rates and other charges in each fiscal year to meet the net revenue requirement for such fiscal year. The net revenue requirement is the greater of 1) the sum of the aggregate debt service and all deposits required by bond resolution to be made, or 2) 1.20 times the aggregate debt service. The BWS met the net revenue requirements for the fiscal years ended June 30, 2013 and 2012.

#### Currently Known Facts, Decisions or Conditions

Effective July 1, 2012, the BWS increased its water rates by approximately 9.65%. Three additional annual water rate increases have been approved.

#### Request for Information

This financial report is designed to provide a general overview of the BWS's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Water Supply, City and County of Honolulu, 630 S. Beretania Street, Honolulu, Hawaii 96813.



# Board of Water Supply City and County of Honolulu Statements of Net Position June 30, 2013 and 2012

Assets         Currents assets       20,404,063       \$ 14,354,299         Cash and cash equivalents       14,907,797       36,652,935         Interest receivable       550,550       868,151         Customer receivables       81lled, less allowance for uncollectible accounts of \$1,993,416 and \$1,522,304 in 2013 and 2012, respectively       6,462,403       7,640,511         Unbilled       11,017,915       11,776,533         Other receivables, less allowance for uncollectible accounts of \$510,868 in 2013 and 2012       2,494,096       1,788,407         Materials and supplies       6,460,259       4,942,267         Prepaid expenses       181,093       252,738         Total current assets       62,478,176       78,275,841         Restricted assets       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs       Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets       Infrastructure       1,365,850,204       1,323,318,170		2013	2012
Currents assets         Cash and cash equivalents       \$ 20,404,063       \$ 14,354,299         Investments       14,907,797       36,652,935         Interest receivable       550,550       868,151         Customer receivables       868,151         Billed, less allowance for uncollectible accounts of \$1,993,416 and \$1,522,304 in 2013 and 2012, respectively Unbilled       6,462,403       7,640,511         Other receivables, less allowance for uncollectible accounts of \$510,868 in 2013 and 2012       2,494,096       1,788,407         Materials and supplies       6,460,259       4,942,267         Prepaid expenses       181,093       252,738         Total current assets       62,478,176       78,275,841         Restricted assets       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs       Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets	Assats	75.55	
Cash and cash equivalents       \$ 20,404,063       \$ 14,354,299         Investments       14,907,797       36,652,935         Interest receivable       550,550       868,151         Customer receivables       550,550       868,151         Billed, less allowance for uncollectible accounts of \$1,993,416 and \$1,522,304 in 2013 and 2012, respectively Unbilled       6,462,403       7,640,511         Other receivables, less allowance for uncollectible accounts of \$510,868 in 2013 and 2012       2,494,096       1,788,407         Materials and supplies       6,460,259       4,942,267         Prepaid expenses       181,093       252,738         Total current assets       62,478,176       78,275,841         Restricted assets       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs       Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets			
Investments		\$ 20,404,063	\$ 14.254.200
Interest receivable   550,550   868,151		parties and the state of the st	
Customer receivables         Billed, less allowance for uncollectible accounts of         \$1,993,416 and \$1,522,304 in 2013 and 2012, respectively       6,462,403       7,640,511         Unbilled       11,017,915       11,776,533         Other receivables, less allowance for uncollectible       2,494,096       1,788,407         accounts of \$510,868 in 2013 and 2012       2,494,096       1,788,407         Materials and supplies       6,460,259       4,942,267         Prepaid expenses       181,093       252,738         Total current assets       62,478,176       78,275,841         Restricted assets         Cash and cash equivalents       15,197,057       15,682,582         Investments       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs         Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets	Interest receivable		44
\$1,993,416 and \$1,522,304 in 2013 and 2012, respectively Unbilled 11,017,915 11,776,533  Other receivables, less allowance for uncollectible accounts of \$510,868 in 2013 and 2012 2,494,096 1,788,407 Materials and supplies 6,460,259 4,942,267 Prepaid expenses 181,093 252,738  Total current assets 62,478,176 78,275,841  Restricted assets  Cash and cash equivalents 15,197,057 15,682,582 Investments 26,685,751 27,680,574 Due from broker 1,330,000 -  Total restricted assets 43,212,808 43,363,156 Investments 143,688,323 100,659,263  Bond issue costs  Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively 2,172,821 2,293,819  Capital assets	Customer receivables	,	555,151
Unbilled       11,017,915       11,776,533         Other receivables, less allowance for uncollectible accounts of \$510,868 in 2013 and 2012       2,494,096       1,788,407         Materials and supplies       6,460,259       4,942,267         Prepaid expenses       181,093       252,738         Total current assets       62,478,176       78,275,841         Restricted assets       26,685,751       27,680,574         Investments       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs       Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets	하는데 경기를 가는 이 살이 있는데 한 경기에 가면 하면 하면 하면 하면 하는데 하는데 하는데 하는데 하면 하면 하면 하는데 하는데 하면 하는데 하다를 하고 하는데		
Other receivables, less allowance for uncollectible accounts of \$510,868 in 2013 and 2012       2,494,096       1,788,407         Materials and supplies       6,460,259       4,942,267         Prepaid expenses       181,093       252,738         Total current assets       62,478,176       78,275,841         Restricted assets       26,685,751       27,680,574         Investments       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs       Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets		6,462,403	7,640,511
accounts of \$510,868 in 2013 and 2012       2,494,096       1,788,407         Materials and supplies       6,460,259       4,942,267         Prepaid expenses       181,093       252,738         Total current assets       62,478,176       78,275,841         Restricted assets       26,685,751       27,680,574         Cash and cash equivalents       15,197,057       15,682,582         Investments       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs       Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets		11,017,915	11,776,533
Materials and supplies       6,460,259       4,942,267         Prepaid expenses       181,093       252,738         Total current assets       62,478,176       78,275,841         Restricted assets       2       15,197,057       15,682,582         Investments       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs       Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets			
Prepaid expenses         181,093         252,738           Total current assets         62,478,176         78,275,841           Restricted assets         52,173,007         15,682,582           Cash and cash equivalents         15,197,057         15,682,582           Investments         26,685,751         27,680,574           Due from broker         1,330,000         -           Total restricted assets         43,212,808         43,363,156           Investments         143,688,323         100,659,263           Bond issue costs         Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively         2,172,821         2,293,819           Capital assets			
Total current assets 62,478,176 78,275,841  Restricted assets Cash and cash equivalents 15,197,057 15,682,582 Investments 26,685,751 27,680,574 Due from broker 1,330,000 -  Total restricted assets 43,212,808 43,363,156  Investments 143,688,323 100,659,263  Bond issue costs Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively 2,172,821 2,293,819  Capital assets	1 (A)		
Restricted assets  Cash and cash equivalents Investments Due from broker Total restricted assets  Investments Investments  Total restricted assets  Investments In			252,738
Cash and cash equivalents       15,197,057       15,682,582         Investments       26,685,751       27,680,574         Due from broker       1,330,000       -         Total restricted assets       43,212,808       43,363,156         Investments       143,688,323       100,659,263         Bond issue costs       Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively       2,172,821       2,293,819         Capital assets	Total current assets	62,478,176	78,275,841
Investments	Restricted assets		
Due from broker 1,330,000 -  Total restricted assets 43,212,808 43,363,156  Investments 143,688,323 100,659,263  Bond issue costs  Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively 2,172,821 2,293,819  Capital assets	Cash and cash equivalents	15,197,057	15,682,582
Total restricted assets 43,212,808 43,363,156 Investments 143,688,323 100,659,263  Bond issue costs Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively 2,172,821 2,293,819  Capital assets		26,685,751	27,680,574
Investments 143,688,323 100,659,263  Bond issue costs  Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively 2,172,821 2,293,819  Capital assets	Due from broker	1,330,000	
Bond issue costs  Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively  Capital assets	Total restricted assets	43,212,808	43,363,156
Net of accumulated amortization of \$1,569,695 and \$1,448,697 in 2013 and 2012, respectively	Investments	143,688,323	100,659,263
\$1,448,697 in 2013 and 2012, respectively 2,172,821 2,293,819 Capital assets	Bond issue costs		
Capital assets	Net of accumulated amortization of \$1,569,695 and		
	\$1,448,697 in 2013 and 2012, respectively	2,172,821	2,293,819
Infrastructure 1,365,850,204 1,323,318,170	Capital assets		
	Infrastructure	1,365,850,204	1.323.318.170
Building and improvements 152,197,864 149,119,056	Building and improvements	20 To 10	
Equipment and machinery	Equipment and machinery	266,854,387	
1,784,902,455 1,715,935,143		1,784,902,455	1,715,935,143
Less: Accumulated depreciation808,738,703 766,708,010	Less: Accumulated depreciation	808,738,703	766,708,010
976,163,752 949,227,133		976,163,752	949,227,133
Land 32,373,064 32,373,064		32,373,064	32,373,064
Construction work in progress 129,927,360 164,784,029	Construction work in progress	129,927,360	164,784,029
Net capital assets 1,138,464,176 1,146,384,226	Net capital assets	1,138,464,176	1,146,384,226
Total assets \$ 1,390,016,304 \$ 1,370,976,305	Total assets	\$ 1,390,016,304	\$ 1,370,976,305

# Board of Water Supply City and County of Honolulu Statements of Net Position June 30, 2013 and 2012

	2013	2012
Liabilities		
Current liabilities		
Payable from current assets		
Accounts payable	\$ 10,790,929	\$ 4,962,834
Contracts payable, including retainages	3,871,504	3,737,463
Accrued vacation, current	1,464,290	1,611,211
Other	2,938,049	14,948
Total payable from current assets	19,064,772	10,326,456
Payable from restricted assets		
Contracts payable, including retainages	937,401	1,172,195
Accrued interest payable	6,750,422	5,955,485
Bonds payable, current	7,335,000	7,985,000
Notes payable, current	1,554,435	1,540,637
Other		300,160
Total payable from restricted assets	16,577,258	16,953,477
Total current liabilities	35,642,030	27,279,933
Other liabilities		
Customer advances	894,125	1,387,908
Accrued vacation, noncurrent	5,042,067	4,610,403
Accrued workers' compensation	2,305,822	2,393,549
Other postemployment benefits	460,450	12,000
Notes payable, noncurrent	19,643,962	21,123,227
Accrued arbitrage rebate	48,873	48,873
Other	2,134,881	2,330,845
Total other liabilities	30,530,180	31,906,805
Bonds payable, noncurrent	275,050,393	282,869,112
Total liabilities	341,222,603	342,055,850
Commitments and contingencies		
Net Position		
Invested in capital assets – net of related debt	843,769,821	842,391,887
Restricted for capital activity and debt service	26,635,550	26,409,679
Unrestricted	178,388,330	160,118,889
Total net position	1,048,793,701	1,028,920,455
Total liabilities and net position	\$ 1,390,016,304	\$ 1,370,976,305

# Board of Water Supply City and County of Honolulu Statements of Revenues, Expenses and Change in Net Position Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Water sales	\$ 177,316,132	\$ 155,819,396
Other, principally contract and service fees	3,189,204	3,688,333
Total operating revenues	180,505,336	159,507,729
Operating expenses		
Administrative and general	43,408,706	39,392,068
Depreciation	41,774,826	42,376,263
Power and pumping	39,248,278	33,202,387
Transmission and distribution	18,245,127	13,741,862
Maintenance	18,156,287	17,286,240
Water reclamation	4,908,661	6,318,530
Customers' accounting and collection	4,408,308	2,838,379
Central administrative services expense fees	3,300,000	3,300,000
Source of supply	41,265	267,921
Total operating expenses	173,491,458	158,723,650
Operating income	7,013,878	784,079
Nonoperating revenues (expenses)		
Interest income	2,528,333	2,902,587
Interest expense, net of interest capitalized and amortization of bond premiums of \$1,415,891		
and \$4,187,825 in 2013 and 2012, respectively	(11,865,437)	(8,671,709)
Loss from disposal of capital assets	(254,503)	(359,250)
Realized and unrealized losses on investments	(2,414,961)	(916,009)
Other	1,338,780	448,169
Total nonoperating expenses	(10,667,788)	(6,596,212)
Contributions in aid of construction	23,527,156	25,198,240
Change in net position	19,873,246	19,386,107
Net position		
Beginning of year	1,028,920,455	1,009,534,348
End of year	\$ 1,048,793,701	\$ 1,028,920,455

# Board of Water Supply City and County of Honolulu Statements of Cash Flows Years Ended June 30, 2013 and 2012

		2013		2012
Cash flows from operating activities				
Cash received from customers	\$	184,544,815	\$	159,137,904
Cash payments to suppliers for goods and services	9.36	(83,091,063)	•	(68,910,138)
Cash payments to employees for services		(43,099,841)		(46,520,944)
Other income (expenses), net	-	1,338,780		(423,681)
Net cash provided by operating activities		59,692,691		43,283,141
Cash flows from capital and related financing activities Acquisition and construction of capital assets,		-		
net of contributions in aid of construction		(18,911,159)		(20,436,212)
Proceeds from sale of capital assets		9,665		53,643
Customer payments for capital projects		8,771,917		5,901,365
Principal paid on bonds		(7,985,000)		(6,710,000)
Interest paid on bonds		(12,361,416)		(14,070,711)
Payments on arbitrage liability		77 55 16 18		(905,540)
Proceeds from notes payable		85,061		11,492
Interest paid on notes payable		(124,975)		(130,639)
Principal paid on notes payable	_	(1,550,528)		(1,543,469)
Net cash used in capital and				
related financing activities		(32,066,435)		(37,830,071)
Cash flows from investing activities				
Purchase of investments	9	(144,688,330)		(139,097,887)
Proceeds from maturities of investments		119,814,269		138,617,661
Interest on investments	-22	2,812,044	-	2,929,369
Net cash provided by (used in) investing activities		(22,062,017)		2,449,143
Net increase in cash and cash equivalents		5,564,239		7,902,213
Cash and cash equivalents				
Beginning of year		30,036,881		22,134,668
End of year (including \$15,197,057 and \$15,682,582 in restricted assets in 2013 and 2012, respectively)	\$	35,601,120	\$	30,036,881

# Board of Water Supply City and County of Honolulu Statements of Cash Flows Years Ended June 30, 2013 and 2012

		2013	2012
Reconciliation of operating income to			
net cash provided by operating activities			
Operating income	\$	7,013,878	\$ 784,079
Depreciation		43,399,565	43,966,589
Provision for doubtful accounts		(646,148)	(538,635)
Other revenues		1,338,780	448,169
Changes in assets and liabilities			
Customer receivables		1,936,726	(1,737,555)
Materials and supplies		(1,517,992)	(433,667)
Other receivables		(705,689)	1,906,365
Prepaid expenses and other		71,645	165,236
Accounts and contracts payable		5,727,342	101,798
Accrued vacation		284,743	372,420
Other postemployment benefits		448,450	(996,000)
Other liabilities		2,341,391	(755,658)
Net cash provided by operating activities	\$	59,692,691	\$ 43,283,141
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	\$	14,755,239	\$ 10,002,536
Amortization of bond issue costs	75%	120,997	 134,603
Amortization of bond premium, net		(1,022,366)	(621,684)
Amortization of deferred loss on refunding		538,647	220,494
Bond proceeds deposited directly with escrow agent			,
for refunding of previously issued debt		.=	97,821,826
Bond proceeds used for bond issuance costs		-	687,342
Forgiveness of principal due on notes payable		-	9,140,265

#### 1. Operations

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

#### 2. Summary of Significant Accounting Policies

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

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

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

The BWS applies all applicable GASB pronouncements, including the adoption of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB (Financial Accounting Standards Board) and AICPA (American Institute of Certified Public Accountants) Pronouncements, in the year ended June 30, 2013.

#### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables, accrued workers' compensation, and postretirement benefits. Actual results could differ from those estimates.

#### Regulation and Water Rates

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

#### Cash and Cash Equivalents

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

#### Investments

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

#### Receivables

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

#### Materials and Supplies

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

#### Restricted Assets

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

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

#### **Capital Assets**

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

Major replacements, renewals, and betterments are capitalized. Interest costs are capitalized during the construction period of major capital projects. Interest costs incurred in the years ended June 30, 2013 and 2012 totaled \$13,281,328 and \$12,859,534, respectively. Capitalized interest costs totaled \$1,053,169 and \$3,921,239 for the years ended June 30, 2013 and 2012, respectively. The BWS also capitalizes certain indirect costs to construction work based upon actual construction direct labor. Maintenance, repairs and replacements that do not improve or extend the lives of the assets are charged to expense.

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

The estimated useful lives of capital assets are as follows:

Source of supply	20 to 100 years
Pumping plant	20 to 50 years
Water treatment plant	20 to 30 years
Transmission and distribution plant	131/3 to 50 years
General plant	5 to 50 years

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

Bond Issue 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 position.

#### **Accrued Vacation and Compensatory Pay**

Vacation is earned at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days as of the end of the calendar year and are convertible to pay upon termination.

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

As of June 30, 2013 and 2012, accumulated sick leave aggregated approximately \$17,430,000 and \$17,840,000, respectively. Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 or more unused sick days is entitled to additional service credit in the State of Hawaii's Employees' Retirement System.

#### Water System Facilities Charge

A water system facilities charge is levied against all new developments and residential properties requiring water from the BWS's systems, except those developments that have paid for and installed a complete water system, including source, transmission, and daily storage facilities. The amounts collected are initially recorded as customer advances and are recognized as contributions in aid of construction when water service is made available to the customer. The use of these funds is designated for the construction of water facilities.

#### **Net Position**

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

#### Revenue Recognition

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

#### Contributions in Aid of Construction

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

#### Pension Expense

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

#### **Deferred Compensation Plan**

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

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

#### **Risk Management**

The BWS is exposed to various risks of loss from: (1) torts, (2) theft of, damage to, and destruction of assets, (3) employee injuries and illnesses, (4) natural disasters, and (5) employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

The ranges of insurance limits and deductibles are as follows:

Policy	mits llions)	Deductibles		
Property	\$ 60	\$	50,000	
Public Entity Liability	15		500,000	
Excess Workers' Compensation	25		600,000	
Employment Practices	5		75,000	
Storage Tank Liability	2		10,000	
Pollution Legal Liability	5		250,000	
Crime	5		25.000	

#### **New Accounting Pronouncements**

In April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to clarify the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

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

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. The Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this Statement are effective for reporting periods beginning after June 15, 2013. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

#### 3. Cash and Investments

Cash deposited with the City is maintained in separate accounts by the Department of Budget and Fiscal Services of the City. The Hawaii Revised Statutes ("HRS") provide for the City's Director of Finance to deposit the cash with any national or state bank or federally insured financial institution authorized to do business in the State of Hawaii, provided that all deposits are fully insured or collateralized. The City's demand deposits are fully insured or collateralized with securities held by the City or its agents in the City's name. The HRS authorizes the BWS to invest, with certain restrictions, in obligations of the State of Hawaii or the United States, in federally insured savings

accounts, time certificates of deposit, and bank repurchase agreements with federally insured financial institutions authorized to do business in the State of Hawaii.

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

#### Interest Rate Risk

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

#### Credit Risk

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

#### **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the BWS will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. All investments are registered in the name of the BWS and are held in the possession of a broker-dealer firm. At June 30, 2013, approximately \$6,876,108 in cash and cash equivalents and all investments were held by a broker-dealer firm. Cash, cash equivalents and investments held by the broker-dealer firm are insured up to \$500,000, of which up to \$250,000 may be uninvested cash, by the Securities Investor Protection Corporation. Excess coverage purchased from a private insurer by the broker-dealer firm is designed to provide additional protection up to the full net equity value of each account.

#### Concentration of Credit Risk

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

The historical cost and estimated fair value of investments at June 30, 2013 and 2012 consisted of the following:

	100.00	20	013			20	012	
	-	Cost		Fair Value		Cost		Fair Value
U.S. Treasury obligations	\$	130,259,846	\$	129,492,270	\$	67,996,413	\$	67,918,397
U.S. Government agencies	-	56,553,861	10	55,789,601	_	98,003,118	_	97,074,375
	\$	186,813,707	\$	185,281,871	\$	165,999,531	\$	164,992,772

At June 30, 2013, each investment had a credit quality rating of Aaa. The credit exposure as a percentage of total investments was as follows:

	Percent of Total	Fair Value
U.S. Treasury obligations	70%	\$ 129,492,270
U.S. Government agencies Federal National Mortgage Association	15%	27.225.332
Federal Home Loan Mortgage Corporation	13%	24,839,075
Federal Home Loan Bank	2%	3,725,194
	100%	\$ 185,281,871

The fair value of investments at June 30, 2013 by contractual maturity is shown below:

	Investment Maturities (In Years)								
	N	Fair Value	L	ess Than 1		1 – 5			
U.S. Treasury obligations	\$	129,492,270	\$	16,585,939	\$	112,906,331			
U.S. Government agencies		55,789,601		3,682,001	-	52,107,600			
	\$	185,281,871	\$	20,267,940	\$	165,013,931			

#### 4. Restricted Assets

At June 30, 2013 and 2012, the BWS's restricted assets were comprised of cash and cash equivalents, debt securities, and due from broker receivables and were held for the following purposes:

	2013	2012
Construction, renewals, and replacements Debt service	\$ 2,801,286 40,411,522	\$ 2,895,470 40,467,686
	\$ 43,212,808	\$ 43,363,156

#### 5. Capital Assets

Capital assets activity during the years ended June 30, 2013 and 2012 were as follows:

Balance July 1, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
\$ 1,323,318,170 149,119,056 243,497,917	\$ 12,759,768 922,294 3,649,601	\$ 30,259,390 2,156,514 20,852,790	\$ (487,124) - (1,145,921)	\$ 1,365,850,204 152,197,864 266,854,387
1,715,935,143 (766,708,010)	17,331,663 (43,399,565)	53,268,694	(1,633,045) 1,368,872	1,784,902,455 (808,738,703)
32,373,064 164,784,029	38,364,014	(73,220,683)	(264,173)	976,163,752 32,373,064 129,927,360
\$ 1,146,384,226  Balance July 1, 2011	\$ 12,296,112 Additions	\$ (19,951,989) Transfers	\$ (264,173)	\$ 1,138,464,176  Balance June 30, 2012
\$ 1,303,009,505 148,085,176 237,113,104	\$ 10,096,793 - 2,405,327	\$ 11,010,691 1,142,608 6,384,183	\$ (798,819) (108,728) (2,404,697)	\$ 1,323,318,170 149,119,056 243,497,917
1,688,207,785 (725,640,773)	12,502,120 (43,966,589)	18,537,482	(3,312,244) 2,899,352	1,715,935,143 (766,708,010)
32,373,064 162,737,147	30,778,855	(28,731,973)	(412,692)	949,227,133 32,373,064 164,784,029
	July 1, 2012  \$ 1,323,318,170	\$ 1,323,318,170 \$ 12,759,768 149,119,056 922,294 243,497,917 3,649,601 1,715,935,143 17,331,663 (766,708,010) (43,399,565) 949,227,133 (26,067,902) 32,373,064 164,784,029 38,364,014 \$ 1,146,384,226 \$ 12,296,112	July 1, 2012         Additions         Transfers           \$ 1,323,318,170         \$ 12,759,768         \$ 30,259,390           149,119,056         922,294         2,156,514           243,497,917         3,649,601         20,852,790           1,715,935,143         17,331,663         53,268,694           (766,708,010)         (43,399,565)         -           949,227,133         (26,067,902)         53,268,694           32,373,064         -         -           164,784,029         38,364,014         (73,220,683)           \$ 1,146,384,226         \$ 12,296,112         \$ (19,951,989)           Balance         July 1, 2011         Additions         Transfers           \$ 1,303,009,505         \$ 10,096,793         \$ 11,010,691           148,085,176         -         1,142,608           237,113,104         2,405,327         6,384,183           1,688,207,785         12,502,120         18,537,482           (725,640,773)         (43,966,589)         -           962,567,012         (31,464,469)         18,537,482           32,373,064         -         -	July 1, 2012         Additions         Transfers         Retirements           \$ 1,323,318,170         \$ 12,759,768         \$ 30,259,390         \$ (487,124)           149,119,056         922,294         2,156,514         -           243,497,917         3,649,601         20,852,790         (1,145,921)           1,715,935,143         17,331,663         53,268,694         (1,633,045)           (766,708,010)         (43,399,565)         -         1,368,872           949,227,133         (26,067,902)         53,268,694         (264,173)           32,373,064         -         -         -           164,784,029         38,364,014         (73,220,683)         -           \$ 1,146,384,226         \$ 12,296,112         \$ (19,951,989)         \$ (264,173)           Balance         July 1, 2011         Additions         Transfers         Retirements           \$ 1,303,009,505         \$ 10,096,793         \$ 11,010,691         (798,819)           148,085,176         -         1,142,608         (108,728)           237,113,104         2,405,327         6,384,183         (2,404,697)           1,688,207,785         12,502,120         18,537,482         (3,312,244)           (725,640,773)         (43,966,589)

Depreciation charges allocated to various functions for the years ended June 30, 2013 and 2012 totaled \$1,624,739 and \$1,590,326, respectively.

#### 6. Bonds Payable

At June 30, 2013 and 2012, bonds payable consisted of the following:

	2013	2012
Water System Revenue Bonds, Series 2004, annual principal due ranging from \$2,280,000 to \$2,465,000 through July 1, 2014, with interest ranging from 3.50% to 4.00%	\$ 4,830,000	\$ 7,110,000
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 4.00% to 5.00%	156,745,000	157,720,000
Water System Revenue Bonds, Series 2006B, annual principal due ranging from \$2,335,000 to \$4,455,000 through July 1, 2021, with interest ranging from 5.00% to 5.25%	32,200,000	35,140,000
Water System Revenue Bonds, Series 2012A, annual principal due commencing July 1, 2012, ranging from \$860,000 to \$8,535,000 through July 1, 2033, with		
interest ranging from 2.00% to 5.00%	83,405,000	85,195,000
	277,180,000	285,165,000
Add: Unamortized premium	14,504,001	15,526,367
Less: Deferred loss on refunding	(9,298,608)	(9,837,255)
	282,385,393	290,854,112
Less: Current portion	(7,335,000)	(7,985,000)
Noncurrent portion	\$ 275,050,393	\$ 282,869,112

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

Bonds payable activity during 2013 and 2012, were as follows:

W		Balance July 1, 2012	Additions	ı	Reductions		Balance lune 30, 2013		Due Within One Year
Water System Revenue Bonds Series 2004 Series 2006A	\$	7,110,000 157,720,000	\$	\$	(2,280,000) (975,000)	\$	4,830,000 156,745,000	\$	2,365,000 1,015,000
Series 2006B Series 2012A		35,140,000 85,195,000			(2,940,000) (1,790,000)	-	32,200,000 83,405,000		3,095,000
	\$	285,165,000	\$ <u> </u>	\$	(7,985,000)	\$	277,180,000	\$	7,335,000
		Balance July 1, 2011	Additions	ı	Reductions	J	Balance une 30, 2012	0.0	Due Within One Year
Water System Revenue Bonds	9		Additions	F	Reductions	J		0.0	
Water System Revenue Bonds Series 2001	\$		\$ Additions -		Reductions (11,780,000)	\$			
		July 1, 2011	\$	\$				0.0	One Year -
Series 2001		July 1, 2011 11,780,000	\$ -	\$	(11,780,000)		une 30, 2012 -		
Series 2001 Series 2004		July 1, 2011 11,780,000 79,875,000	\$ -	\$	(11,780,000) (72,765,000)		7,110,000		One Year 2,280,000
Series 2001 Series 2004 Series 2006A		July 1, 2011 11,780,000 79,875,000 165,195,000	\$ -	\$	(11,780,000) (72,765,000) (7,475,000)		7,110,000 157,720,000		One Year 2,280,000 975,000

At June 30, 2013, future bond principal and interest payments are as follows:

	Principal			Interest	Total
Year Ending June 30,					
2014	\$	7,335,000	\$	13,011,000	\$ 20,346,000
2015		7,660,000		12,688,000	20,348,000
2016		8,005,000		12,346,000	20,351,000
2017		8,365,000		11,983,000	20,348,000
2018		8,745,000		11,604,000	20,349,000
2019–2023		50,640,000		51,287,000	101,927,000
2024–2028		65,175,000		37,447,000	102,622,000
2029–2033		78,120,000		20,163,000	98,283,000
2034–2037	-	43,135,000		3,993,000	 47,128,000
Total	\$ 2	277,180,000	\$	174,522,000	\$ 451,702,000

In February 2001, the BWS created an irrevocable trust with an escrow agent to retire \$32,460,000 of the BWS's outstanding 1992 general obligation water bonds. The escrow agent will pay all future debt service payments on the 1992 Series bonds out of the irrevocable trust. Consequently, the 1992 Series bonds were considered to be defeased and the liability for the bonds was removed from the BWS's financial statements in 2001. At June 30, 2013 and 2012, the outstanding 1992 Series defeased bonds amounted to \$8,885,000 and \$11,520,000, respectively.

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

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

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

#### 7. Notes Payable

At June 30, 2013 and 2012, notes payable consisted of the following:

		2013		2012
Notes payable to Department of Health  Note payable in semi-annual installments of approximately				
\$60,100, including interest at .10%, due June 2025  Note payable in semi-annual installments of approximately	\$	1,434,323	\$	1,460,973
\$104,400, including interest at .31%, due November 2025 Note payable in semi-annual installments of approximately		2,559,105		2,759,596
\$10,200, including interest at .10%, due January 2027  Note payable in semi-annual installments of approximately		274,238		294,411
\$302,500, including interest at .10%, due February 2026		7,813,086		8,409,892
Non-interest bearing note payable in semi-annual installments of approximately \$75,000, due September 2025		1,873,828		2,023,734
Note payable in semi-annual installments of approximately \$32,500, including interest at .01%, due March 2028		974,477		1,039,390
Note payable in semi-annual installments of approximately \$70,200, including interest at .01%, due August 2027  Note payable in semi-annual installments of approximately		2,035,004		2,175,245
\$49,700, including interest at .01%, due March 2028  Note payable in semi-annual installments of approximately		1,490,058		1,589,316
\$36,100, including interest at .36%, due June 2028		1,051,902		1,120,118
Notes payable to other lenders  Note payable in monthly installments of approximately				
\$15,700, including interest at 5%, due September 2025	_	1,692,376	_	1,791,189
		21,198,397		22,663,864
Less: Current portion		1,554,435		1,540,637
Noncurrent portion	\$	19,643,962	\$	21,123,227

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

At June 30, 2013, future principal and interest payments for notes payable are as follows:

	Principal			Interest	Total		
Year Ending June 30,							
2014	\$	1,554,000	\$	106,000	\$	1,660,000	
2015		1,571,000		99,000		1,670,000	
2016		1,578,000		92,000		1,670,000	
2017		1,586,000		85,000		1,671,000	
2018		1,593,000		77,000		1,670,000	
2019–2023		8,093,000		258,000		8,351,000	
2024–2028		5,223,000		42,000		5,265,000	
Total	\$	21,198,000	\$	759,000	\$	21,957,000	

#### 8. Other Long-Term Liabilities

The following is a summary of changes in other long-term liabilities for the years ended June 30, 2013 and 2012:

	J	Balance July 1, 2012		Additions	F	Reductions	J	Balance une 30, 2013		ue Within One Year
Customer advances	\$	1,387,908	\$	1842	\$	(493,783)	\$	894,125	\$	-
Accrued vacation		6,221,614		1,749,033		(1,464,290)		6,506,357		1,464,290
Accrued workers' compensation		2,393,549		1,211,800		(1,299,527)		2,305,822		
Other postemployment benefits		12,000		8,681,000		(8,232,550)		460,450		74
Accrued arbitrage rebate liability		48,873		J		-		48,873		-
Other		2,330,845		134,034		(329,998)		2,134,881		-
	\$	12,394,789	\$	11,775,867	\$	(11,820,148)	\$	12,350,508	\$	1,464,290
		Balance luly 1, 2011		Additions	F	Reductions	Ji	Balance une 30, 2012	-	Due Within One Year
Customer advances	\$	2,210,966	\$	6,055,440	\$	(6,878,498)	\$	1,387,908	\$	_
Accrued vacation		5,849,194		1,983,631		(1,611,211)		6,221,614		1,611,211
Accrued workers' compensation		2,235,157		1,140,112		(981,720)		2,393,549		
Other postemployment benefits		1,008,000		10,759,000		(11,755,000)		12,000		
Accrued arbitrage rebate liability		954,413		-		(905,540)		48,873		-
Other		1,704,062	1200	1,216,123	_	(589,340)	92	2,330,845	88 <u></u>	Table 1
	\$	13,961,792	\$	21,154,306	\$	(22,721,309)	\$	12,394,789	\$	1,611,211

#### 9. Net Position

The BWS's net position consisted of the following as of June 30, 2013 and 2012:

	2013	2012
Invested in capital assets, net of related debt		
Capital assets, net	\$ 1,138,464,176	\$ 1,146,384,226
Less: Noncurrent portion of water system		
revenue bonds payable	(275,050,393)	(282,869,112)
Less: Notes payable	(19,643,962)	(21,123,227)
Total invested in capital assets, net of related debt	843,769,821	842,391,887
Restricted for capital activity and debt service		
Restricted cash and cash equivalents	15,197,057	15,682,582
Restricted investments	26,685,751	27,680,574
Restricted other receivables	1,330,000	7 <u>2</u> 9
Less: Contracts payable, including retainages	(937,401)	(1,172,195)
Less: Accrued interest payable	(6,750,422)	(5,955,485)
Less: Current portion of bonds payable	(7,335,000)	(7,985,000)
Less: Current portion of notes payable	(1,554,435)	(1,540,637)
Less: Other payables from restricted assets		(300,160)
Total restricted for capital activity and debt service	26,635,550	26,409,679
Unrestricted	178,388,330	160,118,889
Total net position	\$ 1,048,793,701	\$ 1,028,920,455

#### 10. Leases

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

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

The future minimum rental payments and sublease income from these operating leases at June 30, 2013 were as follows:

	Future Minimal Less Rental Sublease Payments Income				Net Minimum Future Rental (Income) Expense		
Year Ending June 30,							
2014	\$	159,000	\$	208,000	\$	(49,000)	
2015		159,000		205,000		(46,000)	
2016		159,000		198,000		(39,000)	
2017		159,000		176,000		(17,000)	
2018		159,000		123,000		36,000	
2019–2023		793,000		500,000		293,000	
2024–2028		350,000		500,000		(150,000)	
2029–2031		-		300,000		(300,000)	
	\$	1,938,000	\$	2,210,000	\$	(272,000)	

#### 11. Related Party Transactions

The BWS has an agreement with the Department of Environmental Services, City and County of Honolulu to provide certain services relating to the billing and collection of sewer service charges. Fees related to these services were negotiated at approximately \$1,424,900 and \$1,422,300 for the years ended June 30, 2013 and 2012, respectively.

The BWS has an agreement with the City to pay a Central Administrative Services Expense ("CASE") fee for treasury, personnel, purchasing and other services that the City provides to the BWS on an on-going basis. The BWS's Charter allows for CASE fees to the extent that it represents a reasonable charge for services necessary for the BWS to perform its duties. CASE fees incurred during the years ended June 30, 2013 and 2012 totaled \$3,300,000.

There were no amounts due from the City as of June 30, 2013. Amounts due from the City totaled \$423,860 as of June 30, 2012 and was included in other receivables.

The BWS has entered into agreements with the City for joint capital projects. The City advanced to the BWS \$928,325 during the years ended June 30, 2013 and 2012. The advanced amounts represent the City's share of total project expenses. Unexpended advanced funds totaled \$861,723 and \$1,161,883 as of June 30, 2013 and 2012, respectively, and are included in other liabilities.

### 12. Employee Benefit Plans

#### **Defined Benefit Pension Plan**

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

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

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

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

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

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

Prior to July 1, 2005, the funding method used to calculate the total employer contribution requirement was the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS were comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 29 years from July 1, 2000. Effective July 1, 2008, employer contribution rates are a fixed percentage of compensation, generally 15.0% for most covered employees. The BWS's contributions to the ERS for the years ended June 30, 2013, 2012 and 2011, were approximately \$4,604,000, \$4,405,000 and \$4,540,000, respectively, which represented approximately 15% of the BWS's covered payroll for the fiscal years ended June 30, 2013, 2012 and 2011.

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

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

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

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

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

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

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

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

For the fiscal years ended June 30, 2013, 2012 and 2011, the components of the BWS's annual OPEB costs, the amounts contributed to the plan and the changes to the BWS's net OPEB obligation are summarized as follows:

	2013		2012		2011
Annual required contribution Interest on net OPEB obligation Adjustment to annual required contribution	\$ 8,674,000 54,000 (47,000)	\$	10,750,000 53,000 (44,000)	\$	10,387,000 191,000 (152,000)
Annual OPEB cost	8,681,000	201	10,759,000		10,426,000
Contributions made	 (8,232,550)		(11,755,000)		(12,339,000)
Increase (decrease) in net OPEB obligation	448,450		(996,000)		(1,913,000)
Net OPEB obligation Beginning of year	12,000		1,008,000	10	2,921,000
End of year	\$ 460,450	\$	12,000	\$	1,008,000
Percentage of annual OPEB cost contributed	95%		109%		118%

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

Actuarial Valuation Date	Actuarial Actuarial Actuarial Value of Accrued AAL Assets Liability ("AAL") ("UAAL")		AAL	Funded Ratio	Covered Payroll	Percentage of Covered Payroll		
July 1, 2011	\$	14,557,000	\$ 127,154,000	\$	112,597,000	11%	\$ 29,900,000	377%
July 1, 2009		5,244,000	143,333,000		138,089,000	4%	33,104,000	417%

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

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

In the July 1, 2011, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a discount rate of 7.0%, projected salary increases of 3.5%, and an annual health cost trend rate of 8.0%, reduced by decrements to an ultimate rate of 6.0% after 8 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amounts over a thirty-year closed period ending June 30, 2037.

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

#### 13. Commitments

Commitments, primarily for utility plant construction, approximated \$116,900,000 and \$89,590,000 as of June 30, 2013 and 2012, respectively. Such amounts are to be funded by operating revenues, contributed capital, cash and investments on hand.

#### 14. Contingencies

#### Workers' Compensation Self-Insurance Liability

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

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

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

#### Arbitrage

The BWS is required to annually calculate rebates to the U.S. Treasury on revenue bond issues. In accordance with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amounts by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. As of June 30, 2013 and 2012, the arbitrage rebate and yield restriction liability totaled \$48,873.

#### Safe Drinking Water

The BWS is subject to the requirements of the Safe Drinking Water Act (the "Act"), which is administered by the State of Hawaii Department of Health on behalf of the U.S. Environmental Protection Agency. Management believes that the BWS is in full compliance with the requirements of the Act and is not aware of any matters under the Act that may materially affect the BWS's customer service area.

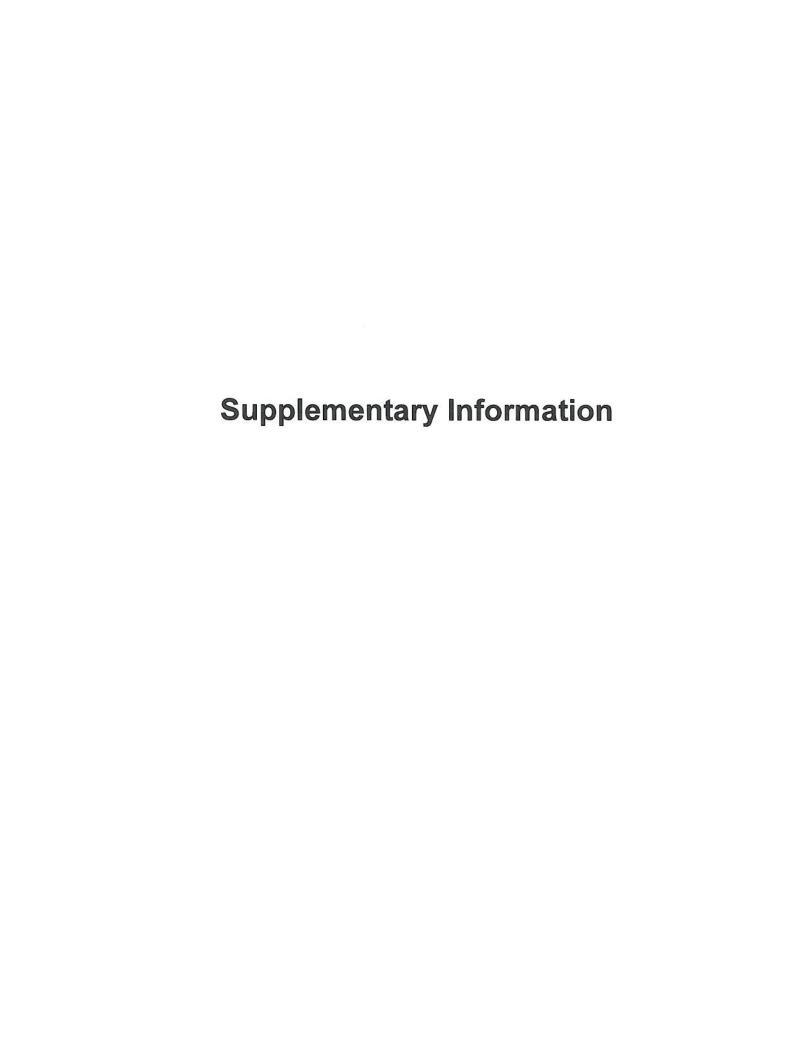
#### **Other Legal Matters**

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

# Required Supplementary Information

# Board of Water Supply City and County of Honolulu Schedule of Funding Progress June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") (b)	Unfunded Actuarial Accrued Liability ("UAAL") (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
July 1, 2011	\$ 14,557,000	\$ 127,154,000	\$ 112,597,000	11%	\$ 29,900,000	377%
July 1, 2009	5,244,000	143,333,000	138,089,000	4%	33,104,000	417%
July 1, 2007	-	94,188,000	94,188,000	0%	29,115,000	323%



# Board of Water Supply City and County of Honolulu Schedule of Bonds Payable June 30, 2013

Description of Bonds Payable	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (A)	outstanding ine 30, 2013
Water System Revenue Bonds Series 2004					
Insured Serial Bonds	4.000%	1/28/2004	7/1/2013	(B)	\$ 2,365,000
Insured Serial Bonds	4.000%	1/28/2004	7/1/2014	(B)	2,465,000
					4,830,000
Water System Revenue Bonds					.,,
Series 2006A (Non-AMT)					
Insured Serial Bonds	4.000%	7/7/2006	7/1/2013	(B)	1,015,000
Insured Serial Bonds	4.000%	7/7/2006	7/1/2014	(B)	1,050,000
Insured Serial Bonds	4.250%	7/7/2006	7/1/2015	(B)	3,660,000
Insured Serial Bonds	4.250%	7/7/2006	7/1/2016	(B)	3,820,000
Insured Serial Bonds	4.000%	7/7/2006	7/1/2017	(B)	3,000,000
Insured Serial Bonds	4.125%	7/7/2006	7/1/2017	(B)	975,000
Insured Serial Bonds	4.200%	7/7/2006	7/1/2018	(B)	1,185,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2019	7/1/2016	595,000
Insured Serial Bonds	4.125%	7/7/2006	7/1/2019	(B)	645,000
Insured Serial Bonds	4.125%	7/7/2006	7/1/2020	(B)	1,290,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2021	7/1/2016	960,000
Insured Serial Bonds	4.300%	7/7/2006	7/1/2021	(B)	390,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2022	(B)	2,740,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2023	(B)	8,225,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2024	(B)	8,595,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2025	7/1/2016	9,010,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2026	7/1/2016	9,470,000
Insured Serial Bonds	4.500%	7/7/2006	7/1/2027	(B)	9,925,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2028	7/1/2016	10,390,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2029	7/1/2016	10,890,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2030	7/1/2016	11,420,000
Insured Term Bonds	4.750%	7/7/2006	7/1/2031	7/1/2016	11,965,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2032	7/1/2016	8,220,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2033	7/1/2016	8,640,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2034	7/1/2016	9,080,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2035	7/1/2016	9,550,000
Insured Term Bonds	5.000%	7/7/2006	7/1/2036	7/1/2016	10,040,000
					156,745,000

<sup>(</sup>A) Call dates indicated are optional.(B) Noncallable.

# Board of Water Supply City and County of Honolulu Schedule of Bonds Payable June 30, 2013

Description of Bonds Payable	Interest Rate	Bond Dated	Maturing Serially From	Call Dates (A)	Outstanding June 30, 2013
Water System Revenue Bonds					¥,
Series 2006B (AMT)					
Insured Serial Bonds	5.000%	7/7/2006	7/1/2013	(B)	3,095,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2014	(B)	3,255,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2015	(B)	3,430,000
Insured Serial Bonds	5.000%	7/7/2006	7/1/2016	(B)	3,605,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2017	7/1/2016	3,800,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2018	7/1/2016	4,005,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2019	7/1/2016	4,220,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2020	7/1/2016	4,455,000
Insured Serial Bonds	5.250%	7/7/2006	7/1/2021	7/1/2016	2,335,000
					32,200,000
Water System Revenue Bonds					
Series 2012A (Non-AMT)					
Insured Serial Bonds	3.00%	3/29/2012	7/1/2013	(B)	960 000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2013	(B)	860,000 890,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2014	(B) (B)	915,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2016	(B)	940,000
Insured Serial Bonds	3.00%	3/29/2012	7/1/2017	(B)	970,000
Insured Serial Bonds	4.00%	3/29/2012	7/1/2017	(B)	3,960,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2019	(B)	4,140,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2020	(B)	2,320,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2021	(B)	6,865,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2022	(B)	8,535,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2023	7/1/2022	3,605,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2024	7/1/2022	3,790,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2025	7/1/2022	3,980,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2026	7/1/2022	4,185,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2027	7/1/2022	4,390,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2028	7/1/2022	4,595,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2029	7/1/2022	4,805,000
Insured Serial Bonds	4.50%	3/29/2012	7/1/2030	7/1/2022	5,025,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2031	7/1/2022	5,270,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2032	7/1/2022	5,540,000
Insured Serial Bonds	5.00%	3/29/2012	7/1/2033	7/1/2022	5,825,000
Bifurcated Serial Bonds	2.00%	3/29/2012	7/1/2020	(B)	2,000,000
nga aga adam di			3131 <del>-3-3</del>	/-/	83,405,000
					\$ 277,180,000
					¥ 211,100,000

<sup>(</sup>A) Call dates indicated are optional.

<sup>(</sup>B) Noncallable.

# Board of Water Supply City and County of Honolulu Schedule of Net Revenue Requirement Years Ended June 30, 2013 and 2012

	2013	2012
Revenues		
Water sales	\$ 177,316,132	\$ 155,819,396
Interest	2,528,333	2,902,587
Other	4,527,984	4,136,502
Total revenues	184,372,449	162,858,485
Deductions		
Operating expenses	173,491,458	158,723,650
Less: Depreciation expense	(41,774,826)	(42,376,263)
Less: Allocated depreciation charges	(1,624,739)	(1,590,326)
Total deductions	130,091,893	114,757,061
Net revenues	\$ 54,280,556	\$ 48,101,424
Net Revenue Requirement Greater of		
Aggregate debt service	\$ 20,504,052	\$ 20,726,065
Required deposits		22
	20,504,052	20,726,065
2) Aggregate debt service	20,504,052	20,726,065
Minimum required debt service ratio	x 1.20	x 1.20
Net revenue requirement	\$ 24,604,862	\$ 24,871,278
Net revenue to aggregate debt service ratio	2.65	2.32



## Board of Water Supply City and County of Honolulu

Single Audit of Federal Financial Assistance Programs June 30, 2013

Quality

#### Board of Water Supply City and County of Honolulu Index June 30, 2013

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#### Introduction

#### Compliance and Internal Control Over Financial Reporting

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 

Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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Corrective Action Plan





October 25, 2013

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

We have completed our audit of the financial statements of the Board of Water Supply ("BWS"), a component unit of the City and County of Honolulu, as of and for the year ended June 30, 2013. We have also audited the BWS's compliance with requirements applicable to its major federal financial assistance program. We submit herein our reports on compliance and on internal control over financial reporting and over federal awards, the BWS's schedule of expenditures of federal awards, and the schedule of findings and questioned costs.

The audit objectives and scope of the audit were as follows:

#### **Audit Objectives**

- To provide an opinion on the fair presentation of the BWS's financial statements and the schedule of expenditures of federal awards as of and for the year ended June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.
- To consider the BWS's internal control over financial reporting in order to design our auditing procedures for the purpose of expressing our opinion on the financial statements.
- 3. To perform tests of the BWS's compliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts.
- 4. To consider the BWS's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget ("OMB") Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

#### Scope of Audit

We performed an audit of the BWS's financial statements and schedule of expenditures of federal awards as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133.



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#### Organization of Report

Our report is organized as follows:

- The Introduction describes the objectives and scope of our audit and the organization and contents
  of this report.
- The Compliance and Internal Control over Financial Reporting contains our report on the BWS's internal control over financial reporting and on compliance and other matters based upon our audit of the BWS's financial statements.
- The Compliance and Internal Control over Federal Awards contains our report on the BWS's
  compliance for each major program and on the internal control over compliance required by OMB
  Circular A-133, the BWS's schedule of expenditures of federal awards, and the schedule of findings
  and questioned costs.

Our report on the financial statements of the BWS as of and for the year ended June 30, 2013 is included under separate cover.

We will be pleased to discuss any questions that you may have regarding our report.

Very truly yours,

Accenty LLP

## Compliance and Internal Control Over Financial Reporting



Report of Independent Auditors on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

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

We have audited, in accordance with the 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, the financial statements of the Board of Water Supply ("BWS"), a component unit of the City and County of Honolulu, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2013.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the BWS's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWS's internal control. Accordingly, we do not express an opinion on the effectiveness of the BWS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2013-1 that we consider to be a significant deficiency.



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#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the BWS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### BWS's Response to Finding

BWS's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. BWS's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

#### Purpose of this Report

Accenty LLP

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Honolulu, Hawaii October 25, 2013



#### Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

#### Report on Compliance for Each Major Federal Program

We have audited the Board of Water Supply's ("BWS"), a component unit of the City and County of Honolulu, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the BWS's major federal program for the year ended June 30, 2013. The BWS's major federal program is identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs.

#### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the BWS's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the BWS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the BWS's compliance.

#### Opinion on Each Major Federal Program

In our opinion, the BWS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.



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#### Report on Internal Control Over Compliance

Management of the BWS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the BWS's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the BWS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

#### Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the BWS as of and for the year ended June 30, 2013, and the related notes to the financial statements. We issued our report thereon dated October 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Accepty LCP
Honolulu, Hawaii

October 25, 2013

#### Board of Water Supply City and County of Honolulu Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

Federal Program or Pass-Through Entity	Catalog of Federal Domestic Assistance ("CFDA") Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Environmental Protection Agency			
Pass-through from the State of Hawaii,			
Department of Health			
Capitalization Grants for Drinking			
Water State Revolving Funds	66.468	ASO LOG #13-124	\$ 1,232,011
	66.468	ASO LOG #13-122	646,474
	66.468	ASO LOG #06-170	284,575
Total expenditures of federal awards			\$ 2,163,060 *

<sup>(\*)</sup> Denotes major federal financial assistance program as defined by OMB Circular A-133.

#### Board of Water Supply City and County of Honolulu Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

#### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the BWS and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* 

#### Section I - Summary of Auditors' Results

rın	ianciai Statements			
Тур	e of auditors' report iss	ued	Unmodi	ified
Inte	ernal control over financ	ial reporting		
•	Material weakness(es	) identified?	yes	X_ no
•	Significant deficiency(	ies) identified?	_X_yes	none reported
No	ncompliance material to	financial statements noted?	yes	X_ no
Fee	deral Awards			
Inte	ernal control over major	programs		
•	Material weakness(es	) identified?	yes	X_ no
•	Significant deficiency(	ies) identified?	yes	X none reported
Тур	pe of auditors' report iss	sued on compliance for major programs	Unmod	ified
		ed that are required to be reported n 510(a) of OMB Circular A-133?	yes	_X_no
lde	ntification of major prog	gram		
	CFDA Number	Name of Federal Program or Cluster		
	66.468	Capitalization Grants for Drinking Water State Revolving Funds		
	llar threshold used to di	stinguish between type A and	\$300,0	000
۸.,	ditoo qualified as low ris	sk auditee?	Y Ves	no

#### Section II - Financial Statement Findings

#### Finding No. 2013-1: Information Technology (Significant Deficiency)

#### Condition

Information technology ("IT") is a strategic element of the Board of Water Supply's ("BWS") operations. Because of the high volume of transactions at the BWS, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our financial statement audit for the year ended June 30, 2013, we performed an IT general controls review of the following systems operated by the BWS:

- J.D. Edwards
- · Oracle Utilities Customer Care and Billing
- Automated Meter Reading System
- Kronos Workforce Timekeeper

As the BWS migrated to a new customer information system in the year ended June 30, 2013, we performed additional migration testing over:

- Data Conversion
- Logical Security
- Interface Implementation
- Project Governance
- Reporting
- Project Risk Management

Our review resulted in several IT control deficiencies in the areas of IT governance, logical and physical security, change management, IT operations and system migration as follows:

#### IT governance

· Lack of management steering committee to review and approve IT plans and priorities

#### Logical and physical security

- · Lack of formal information security policies and procedures for financial systems
- · Weak password security
- User access rights not approved and granted on a need-to-know, need-to-do basis
- Physical access to sensitive equipment not appropriately restricted

#### Change management

- · Lack of formal change management policies and procedures for certain financial systems
- · Lack of IT segregation of duties
- · Lack of user acceptance for configuration changes

#### IT operations

- · Lack of system test restores
- · Lack of monitoring batch processing for certain financial systems
- · Lack of monitoring controls for certain financial system interfaces

#### System migration

- · Lack of validation by users for certain converted data
- · Lack of validation by business for user access rights
- Lack of adequate user involvement in deriving bill estimation requirements
- · Failure to adequately address business readiness concerns

Collectively, the number and related nature of the IT control deficiencies resulted in an overall significant deficiency.

#### Effect

Internal controls in the areas of IT governance, logical and physical security, change management, IT operations and system migration address the following risks:

#### IT governance

Control environment not appropriately supported by management, setting a weak tone at the top, causing a lack of accountability with employees. IT risk management process not in place to support financial reporting requirements.

#### Logical and physical security

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions being made or transactions being inaccurately recorded.

#### Change management

Unauthorized or untested changes promoted to the production environment could cause the financial systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

#### IT operations

Programs and processes are not executed as planned and deviations from scheduled processing are not identified and investigated causing data integrity concerns. There exists an inability to correct or recover from data loss, corruption, or data integrity concerns.

#### System migration

Data conversion errors could cause data integrity concerns. Project management and governance may not be effective to ensure business objectives are met.

#### Recommendations

We recommend that BWS perform the following:

- Formally hold management steering committee meetings for IT on a monthly or bi-monthly basis.
- Update IT policies and procedures to include internal control procedures.
- Identify methods to ensure IT policies and procedures are consistently followed.
- Remove user access that is not commensurate with job responsibilities.
- Implement formal change management policies and procedures.
- · Identify methods to ensure change management policies and procedures are consistently followed.
- Perform formal system restoration testing.
- Implement monitoring controls over batch processing.
- Implement a standard project management framework which includes appropriate training.

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Status of Prior Year Findings and Questioned Costs

None



#### BOARD OF WATER SUPPLY

CITY AND COUNTY OF HONOLULU 630 SOUTH BERETANIA STREET HONOLULU, HI 96843



KIRK CALDWELL, MAYOR

DUANE R. MIYASHIRO, Chairman MAHEALANI CYPHER, Vice Chair THERESIA C. McMURDO ADAM C. WONG DAVID C. HULIHEE

ROSS S. SASAMURA, Ex-Officio GLENN M. OKIMOTO, Ex-Officio

ERNEST Y W. LAU, P.E Manager and Chief Engineer

ELLEN E. KITAMURA, P.E. Deputy Manager and Chief Engineer

Chairman and Members Board of Water Supply City and County of Honolulu Honolulu, Hawaii 96843

Accuity LLP Attn: Ms. Cindy Yee 999 Bishop Street, Suite 1900 Honolulu, Hawaii 96813

Subject:

IT General Controls Review and Management Letter Comments on the Financial Statement Audit for the Year Ended June 30, 2013

The Honolulu Board of Water Supply (BWS) has reviewed the IT audit findings and the IT Management Report submitted by Accuity, LLP. Subsequent to this review, the BWS has taken steps to address the recommendations stated therein via the Formal Response and Corrective Action statement (attached).

As with any audit, management welcomes the comments and recommendation of the auditor that will assist us in becoming more efficient and effective in serving our customers and community.

We look forward to working with Accuity during the current year to gain a stronger understanding of the audit process and clarity of audit documentation requirements along with their continued assistance in the development and implementation of our corrective action plan to appropriately address the audit findings, concerns, and recommendations.

In closing, I would like to acknowledge the considerable efforts of Accuity and IT staff to complete the audit in the specified time frame and the constrained resources of our IT Division.

Respectfully submitted.

ERNEST Y. W. LAU, P.E. Manager and Chief Engineer

Attachment

## Board of Water Supply Accuity IT Management Letter Formal Response and Corrective Action October 15, 2013

The Honolulu Board of Water Supply (BWS) acknowledges receipt of the IT Management Letter from Accuity LLP regarding the audit of IT systems, which was performed in support of the financial statement audit for the fiscal year ended June 30, 2013.

The letter cited several areas of concern, resulting in an overall significant deficiency. While we share in the auditors concerns, and although we may have some differences on specific issues or findings, we acknowledge these findings and note that improvements can and/or have already been made in the areas of:

- IT Governance
- Logical and Physical Security
- Change Management
- IT Operations
- System Migration

The following will serve as a formal response to the recommendations noted in Accuity's IT Management Letter.

#### **IT Governance**

#### Recommendation:

Formally hold management steering committee meetings for IT on a monthly or bi-monthly basis.

Corrective Action: Ongoing - Target end of 2Q FY14

Management Steering Committee members currently have been identified, with the first meeting to be conducted before the end of the  $2^{nd}$  fiscal quarter.

Responsible Person: Ernest Y. W. Lau, Manager and Chief Engineer

#### **Logical and Physical Security**

#### Recommendation:

Update IT policies and procedures to include internal control procedures.

Corrective Action: Ongoing - Target 4Q FY14

This has begun and all areas of IT are working towards addressing this item. We expect completion prior to but no later than the 4<sup>th</sup> fiscal quarter.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive

#### Board of Water Supply Accuity IT Management Letter Formal Response and Corrective Action October 15, 2013

#### Recommendation:

Identify methods to ensure IT policies and procedures are consistently followed.

Corrective Action: Ongoing - Target 4Q FY14

Policies and Procedures mentioned previously, and methods noted here will be addressed concurrently.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive

#### Recommendation:

Remove user access that is not commensurate with job responsibilities.

Corrective Action: Completed

IT Operations and Applications Development has already removed the inappropriate user access.

Procedures have been implemented to ensure this is undertaken on a recurring basis.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive

#### Change Management

Recommendation: Implement formal change management policies and procedures.

**Corrective Action: Ongoing** 

The BWS' change management process for changes to configuration and code promotion are well documented and retained in the production change log or the Issues and Defects Database. User requested changes are managed through the current IT Change Request Procedure that is also well documented, and incorporates an analysis of level of effort/cost, benefit/requirements to be addressed, and approval reviews and signatures (both user and IT). Evidence of these procedures were provided to Accuity, LLP during the audit process. With this stated, BWS will work with the auditor during the current year to identify and implement the necessary improvements as needed.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive

**Recommendation:** Identify methods to ensure change management policies and procedures are consistently followed.

Corrective Action: Ongoing

Similar to the corrective stated above, BWS will work with the auditor to identify and implement

methods that will address concerns in this area.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive

## Board of Water Supply Accuity IT Management Letter Formal Response and Corrective Action October 15, 2013

#### **IT Operations**

Recommendation: Perform formal system restoration testing.

Corrective Action: Ongoing-Target 4Q FY14

IT Operations has adjusted its process to perform recurring system restoration testing, inclusive of user participation. Scheduling of this test is targeted for the  $4^{th}$  quarter of the fiscal year. Specific dates are

being identified, with a goal of minimizing the impact to internal and external customers.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive

Recommendation: Implement monitoring controls over batch processing.

Corrective Action: Ongoing - Target 3Q FY14

System Administrators are replacing the existing batch scheduler with BMC Control-M which has monitoring capability. Scheduling of this is still being identified, and will be accomplished after the

recently upgraded JDE system is determined to be stable.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive

#### **System Migration**

**Recommendation:** Implement a standard project management framework which includes appropriate training.

Corrective Action: Ongoing

A standard project management framework exists which has extensive task items for various methods of training (e.g. formal classroom training, train the trainer, recurring training, workbook creation, etc.). That being said, BWS will work with the auditor to assist in a review of our existing methodology to identify where improvements can be made.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive



November 8, 2013

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

We have audited the financial statements of the Board of Water Supply ("BWS"), a component unit of the City and County of Honolulu, as of and for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 12, 2013. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

#### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by BWS are described in Note 2 to the financial statements. As described in Note 2 to the financial statements, the BWS adopted Governmental Accounting Standards Board Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB (Financial Accounting Standards Board) and AICPA (American Institute of Certified Public Accountants) Pronouncements, in the year ended June 30, 2013. The application of existing policies was not changed during fiscal year 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the BWS's financial statements were:

- the allowance for doubtful accounts
- revenue estimates from meter readings
- useful lives of infrastructure assets
- the other postemployment benefits liability
- · the reserve for accrued workers' compensation

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were the disclosures on the employee benefit plans in Note 12.

The financial statement disclosures are neutral, consistent, and clear.



999 BISHOP STREET, SUITE 1900 HONOLULU, HAWAII 96813

Telephone: 808 531 3400 Facsimile: 808 531 3433

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected financial statement misstatements whose effects, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Management has corrected all such misstatements, which are summarized in the attached schedule.

#### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2013.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the BWS's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

With respect to the required supplementary information ("RSI") and supplementary information ("SI") accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the RSI and SI to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Board of Directors and management of the Board of Water Supply and is not intended to be, and should not be, used by anyone other than these specified parties.

Honolulu, Hawaii November 8, 2013

Accenty LLP

101568 - Board of Water Supply Board of Water Supply 6/30/2013

Client: Engagement: Period Ending:

r chod Litaling.	0.50,2010		
Account	Description	Debit	Credit
Reclassifying Jo	ournal Entries JE # 101		
	ecial Expendables" funds as Unrestricted.		
NK16	CASH - SPECIAL EXPENDITURE - UNRES	1,286,572.00	
1151	CASH		1,286,572.00
Total		1,286,572.00	1,286,572.00
Reclassifying Jo	ournal Entries JE # 102		
To properly class	ify overpayments to billed and unbilled metered sales.		
1081	METERED SALES-UNBIL	1,864,908.00	
1061	METERED SALES	<u></u>	1,864,908.00
Total		1,864,908.00	1,864,908.00
Reclassifying Jo	ournal Entries JE # 103		
To reclassify rest	ricted contract retainages as unrestricted.		
1630	CONTRACT RETAINAGE	277,278.00	
1530	CONTRACT RETAINAGE		277,278.00
Total		277,278.00	277,278.00

Client:

101568 - Board of Water Supply

Engagement: Period Ending:

Board of Water Supply 6/30/2013

Account         Description         Debit         Credit           Adjusting Journal Entries JE # 201         To properly state the postretirement accrual and expense incurred during the year.         4,039,550.00         4,039,550.00           1775         ACCRUAL EMPLOYEE WELFARE 6250         4,039,550.00         4,039,550.00         4,039,550.00           Total         4,039,550.00         4,039,550.00         4,039,550.00         4,039,550.00           Adjusting Journal Entries JE # 202         2	Period Ending:	6/30/2013		
To properly state the postretirement accrual and expense incurred during the year.  1775	Account	Description	Debit	Credit
1775				
To properly state the accounts payable balance at year-end.  1270-EQ10	6250		_	
1270-EQ10	, -			
## 1530			167,743.00	
1545   TRADE A/P YR END ACCRUAL   333,263.00   402,480.00   1545   154	1330-104	CONTRACTS	563,923.00	
1345   REPAIR AND MAINT OF EQUIPMEN   1340.00   135,743.00   136,743	4610	ELECTRIC POWER - PLANTS	4,077.00	
Total 735,743.00 735,743.00  Adjusting Journal Entries JE # 203 To properly state the workers' compensation reserves 1735 CLAIMS & DAMAGES 87,727.00 6340 WORKERS' COMP BENEFITS 87,727.00  Total 87,727.00  Adjusting Journal Entries JE # 204 To properly state the allowance for doubtful accounts. 8020 BAD DEBT EXPENSE 556,161.00 1070 DOUBTFUL ACCTS. 556,161.00	1545	TRADE A/P YR END ACCRUAL		
Adjusting Journal Entries JE # 203  To properly state the workers' compensation reserves  1735	4815	REPAIR AND MAINT OF EQUIPMEN		
To properly state the workers' compensation reserves  1735	Total		735,743.00	735,743.00
1735       CLAIMS & DAMAGES       87,727.00         6340       WORKERS' COMP BENEFITS       87,727.00         Total         Adjusting Journal Entries JE # 204         To properly state the allowance for doubtful accounts.         8020       BAD DEBT EXPENSE       556,161.00         1070       DOUBTFUL ACCTS.       556,161.00				
## 10  ##		186 194 및 18 명 : 40 18 인터 19 19 19 19 19 19 19 19 19 19 19 19 19	97 727 00	
Total 87,727.00  Adjusting Journal Entries JE # 204  To properly state the allowance for doubtful accounts.  8020 BAD DEBT EXPENSE 556,161.00 1070 DOUBTFUL ACCTS. 556,161.00	(1.11/3/3/6)		87,727.00	87 727 00
To properly state the allowance for doubtful accounts.  8020 BAD DEBT EXPENSE 556,161.00  1070 DOUBTFUL ACCTS. 556,161.00		WORKERS COMP BENEFITS	87,727.00	
To properly state the allowance for doubtful accounts.  8020 BAD DEBT EXPENSE 556,161.00  1070 DOUBTFUL ACCTS. 556,161.00	Adjusting Journa	I Entries JE # 204		
8020 BAD DEBT EXPENSE 556,161.00  1070 DOUBTFUL ACCTS. 556,161.00				
1070 DOUBTFUL ACCTS. 556,161.00			556,161.00	
Total 556,161.00 556,161.00		DOUBTFUL ACCTS.		556,161.00
	Total		556,161.00	556,161.00

Board of Water Supply, City and County of Honoluli Summary of Unadjusted Differences - Iron Curtain Metho 06/30/13

				State	ement of Net Pos	sition			Net P	Position	
W/P SL			Invested in Restricted for Capital Activity	Invested ir Restricted for Capital Capital Activity			Differences				
Ref.	No.	Description	Assets	Liabilities	Assets	& Debt Service	Unrestricted	Known	Proj.	Est.	Total
7200.01 4600.02	1	To properly state the electricity expense incurred in fiscal year 2012.  To properly state work in progress that was expensed in fiscal year 2012.			(860,448)		1,217,595	(1,217,595) 860,448			(1,217,595
Total Una	djusted	Differences			(860,448)		1,217,595	(357,147)			(357,147
Financial S	Stateme	ent Amounts	1.390.016.304	(341 222 603)	(843 769 821)	(26,635,550)	(178,388,330)	2			(19.873.24)
		to F/S Amount:	0.0%	0.0%	0.1%	0.0%	-0.7%				1.8%

#### ITEM FOR INFORMATION NO. 2

#### ESTIMATED BILLING UPDATE

#### DISCUSSION:

Mr. Nuuhiwa gave the presentation to the Board. He showed the Maximum Queue Time Calls graph and stated that the wait time now for customers is better than when the new system was launched, and even better from prior to launching the new system. He explained that this is due to hiring more people and also because of the implementation of the operator group who answer the calls, take the message and refer it to the customer service representatives (CSR) for follow up. Mr. Lau explained that the max queue time is the longest time the customer waits in the CSR queue. The bulk of the calls would typically go into the CSR queue, which as of last week was running at about a one-minute wait time for the customer. The other queue that takes in stop and start service inquiries was running at about a five-minute wait time as of last week.

Regarding the Abandoned Call Rate graph, Mr. Nuuhiwa stated that currently 2 percent of the calls are abandoned, with 98 percent of the calls being answered.

Mr. Nuuhiwa explained that the major contributor to the estimated bills was the "Commit Logic" issue. He explained the process of commit logic as illustrated in the presentation, and explained how manual reads of the compound meters could be out of sequence when a meter reader had also inputted notes. Mr. Wong questioned how this happened, and Mr. Nuuhiwa replied that his team applied and tested various different scenarios but could not determine consistencies as to why this happened. Mr. Wong inquired about the name of the company that provides the BWS meter reading system, and Mr. Nuuhiwa responded that the software is AutoVU and the company is Sensus.

Mr. Nuuhiwa explained solutions and corrective actions as shown in the presentation. He informed the Board that the max bill threshold was implemented last month, which reduced the amount of estimations by using actual reads as much as possible. Under this implementation, if the customer's bill dollar amount is under 3 times the amount of the average bill, the system will process the bill. However, if the bill dollar amount is above 3 times the amount of the average bill, then the system would hold the bill until someone reviews it. Mr. Wong inquired if customers would know if they had a leak under this new process. Mr. Nuuhiwa responded yes, they would because if the bill dollar amount is 2-1/2 times higher than their average bill, they would be billed and they should suspect a leak in this case and should call BWS. Mr. Miyashiro inquired about holding the bill if the dollar amount was 3 times lower than average. Mr. Nuuhiwa replied that they do not hold the bill in that case. Mr. Lau asked Mr. Nuuhiwa when this took effect, and Mr. Nuuhiwa replied October 10, 2103.

Mr. Nuuhiwa continued with the presentation by explaining what's next and Mr. Lau concluded. Ms. McMurdo questioned how many customers still have months of estimated bills and are they given a payment arrangement plan. Mr. Lau was not sure about the amount of customers and stated that BWS does work with them on a payment arrangement plan. Mr. Lau assured the Board that they work with every single customer who has a problem or question.

Mr. Wong commended the Department for a great job in identifying the problems and solutions and thanked the staff. Vice Chair Cypher also commended the staff for their hard work. Mr. Lau thanked Mr. Wong and Ms. Cypher and added that his team has worked very hard. He expressed his regrets and apologized for putting the customers through this.

Ms. Cypher mentioned the Commit Logic issue and questioned if it was a programming error that came with the package and asked if BWS questioned the developer about this. Mr. Nuuhiwa replied that BWS did contact Sensus for assistance. Ms. Cypher expressed her concern about the glitch since Sensus sells products all over the world.

Mr. Miyashiro stated that someone from the public wanted to testify on the estimated billing update. He asked the person to take the podium and to state your name and your office. Mr. Matt Caires distributed a 5-paged document titled, "Table of states that regulate retroactive billing by a water utility company when a customer underpays their water bill."

The following is testimony by Matt Caires:

"Matt Caires, policy advisor, office of Councilmember Kymberly Pine. First, thank you Chair, Mr. Lau, Board for putting this item on the agenda and making some time to discuss this important matter and thanks Henderson for your teams' diligent follow up. And I don't want to take too much time, but I know that Councilmember Pine has been speaking to the Chair, as well as two others, about her resolution over the Council, Reso 13-216 regarding the Charter Amendment and to that effect, today I brought over some papers. It's a collection of different administrative rules and statutes from 11 different jurisdictions that just address back billing practices, specifically, and I know that today we've been spending a lot of time on the estimated billing procedures, but I'm just here to answer any questions about Councilmember Pine's proposal and specifically as it relates, I mean she's not against the idea of the process of using estimated billing, but it's more of a measure. The Charter Amendment is more of a measure to address you know what, you know how should, should customers have to pay for mistakes that are made and whether there should be a reasonable limitation on going back and billing them after the fact. So, I'll stand on that document and if there's any questions, I'm more than happy to answer them on behalf of her office."

Mr. Lau thanked Mr. Caires and stated that the Board Chair is very interested in exploring options of limiting the exposure to customers, should the situation of multiple estimated bills arise again. Mr. Lau asked Mr. Caires if he could provide the contact information for the sources provided in the document. Mr. Caires replied that he could provide that and would also provide copies of the primary documents where the information was taken from. Mr. Lau stated that if the Board is supportive, they could look at possible considerations for administrative rules for the future.

Mr. Miyashiro thanked Mr. Caires for compiling and providing the information to them. Mr. Miyashiro asked Mr. Lau to do a study on this and provide him with a proposal and recommendation, and also reminded Mr. Lau about using the American Water Works Association as a resource to see what their thinking is on estimated billing. Mr. Miyashiro stated that he comes out to the same ends as Councilmember Pine but disagrees with the means to get there. Mr. Miyashiro stated that he does not want to go through a Charter Amendment and feels that this Board is quite capable of addressing the issue. He stated that the Board does appreciate Councilmember Pine for raising this issue to them.

Mr. Caires thanked the Board. Mr. Lau thanked Mr. Caires.



### Estimated Bills Issue Update

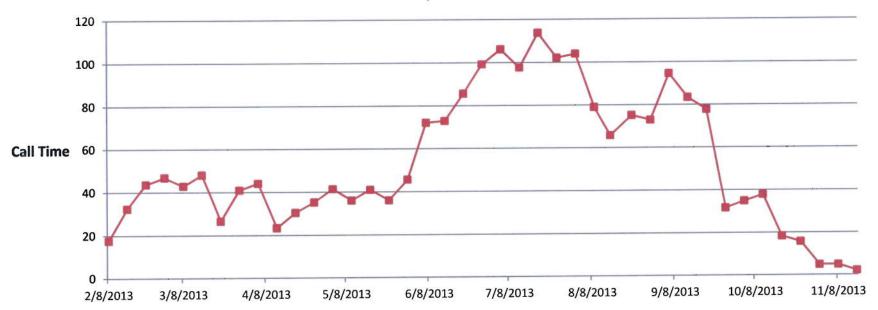
Board of Water Supply (BWS)
Board of Directors Briefing
Neil Oyama
Paul Kikuchi
Henderson Nuuhiwa

### Agenda

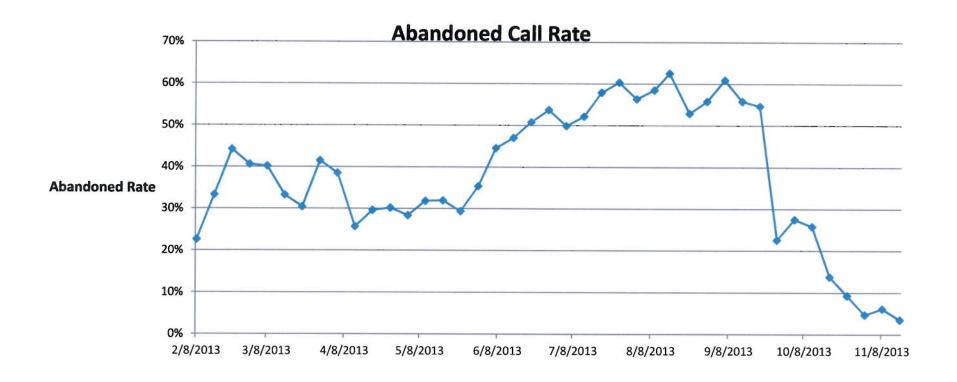
- Current Performance
  - Call Center
  - Meter Reading
  - Estimated Bills
- Root Cause Analysis
- What's Next
- **♦** Conclusion

### Current Performance Call Center

### Customer Service Representatives Maximum Queue Time Calls

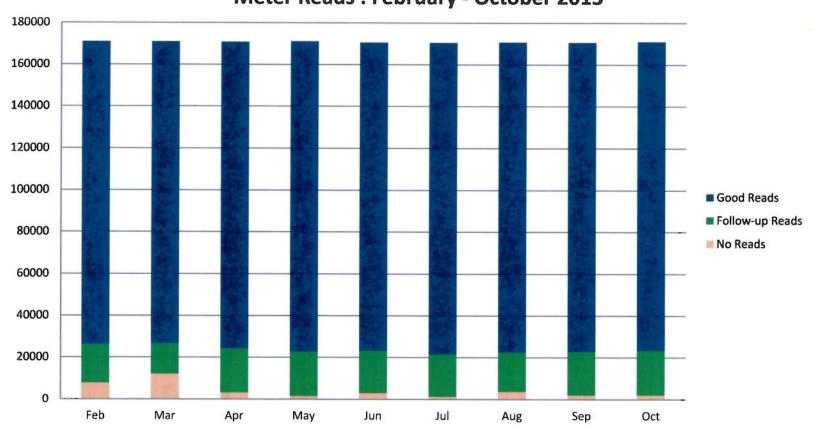


### Current Performance Call Center

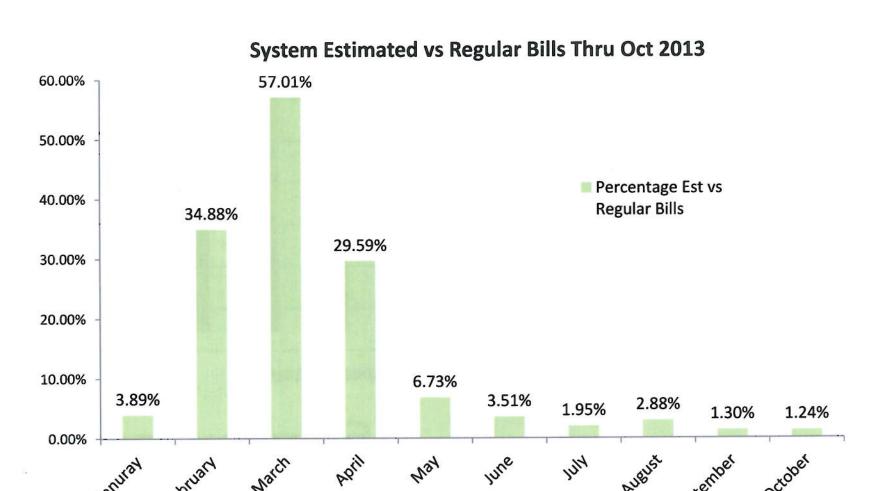


### Current Performance Meter Reading





# Current Performance Estimated Bills



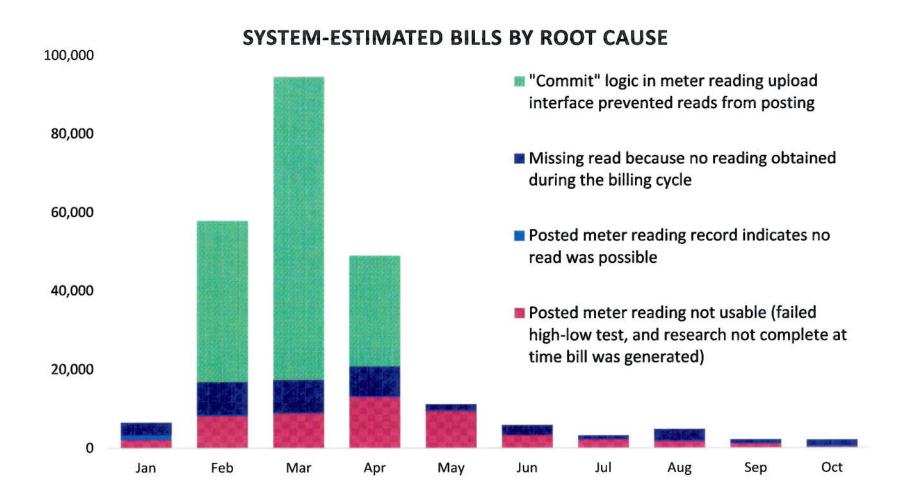
# Current Performance Estimated Bills

System Estimated vs Regular Bills Through Oct. 2013

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
TOTAL SYSTEM- ESTIMATED BILLS*	6,455	57,899	94,643	49,115	11,164	5,819	3,230	4,776	2,152	2,066
% OF TOTAL BILLS	3.89%	34.88%	57.01%	29.59%	6.73%	3.51%	1.95%	2.88%	1.30%	1.24%

### Root Cause Analysis

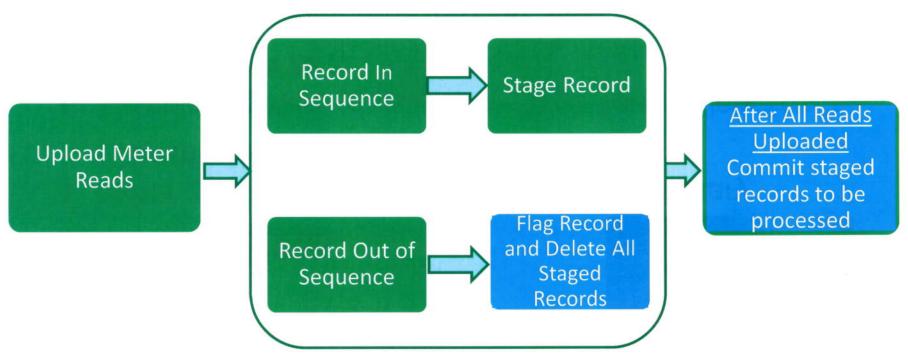
- Major Contributors
  - System Design "Commit" Logic
  - Missing Meter Read
  - No Read Possible
  - Meter Read Not Useable (Failed Hi-Lo Check)



Cause of Estimate	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
"Commit" logic in meter reading upload interface prevented reads from posting	0	41,050	77,254	28,328	0	0	0	0	0	0
Missing read because no reading obtained during the billing cycle	3,184	8,427	8,368	7,503	1,436	2,425	919	2,852	911	1,485
Posted meter reading record indicates no read was possible	1,213	302	212	268	315	203	227	208	190	270
Posted meter reading not usable (failed highlow test, and research not complete at time bill was generated)	2,058	8,120	8,809	13,016	9,413	3,191	2,084	1,716	1,051	311
TOTAL SYSTEM- ESTIMATED BILLS	6,455	57,899	94,643	49,115	11,164	5,819	3,230	4,776	2,152	2,066

Note: This chart shows estimated bills for a particular month. Where the root cause is attributable to meter reading, the meter reading activity may have occurred in the prior month.

Major Contributor - "Commit" Logic



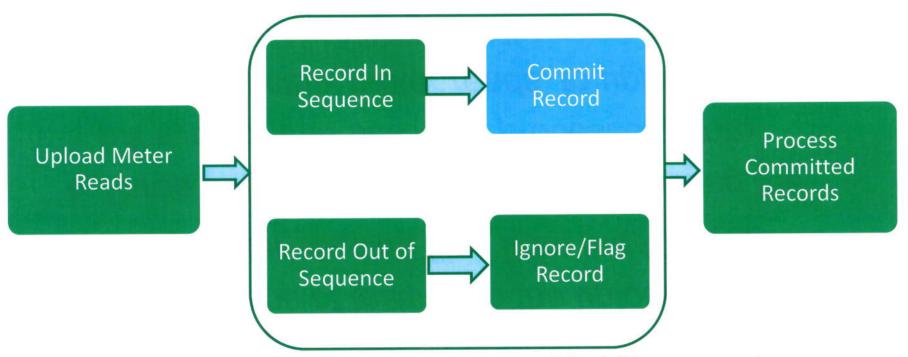
Occurred under a very specific condition when Compound Meter read and note records were out of sequence.



### Compound Meter

- Meter used where high flow rates are necessary (Commercial)
- Multiple registers (mostly two "high flow" & "low flow") and check valve
- At high flow, water runs through "high flow" register.
- When flow drops unmeasurable by the "high flow" register - check valve closes, water runs through "low flow" register for more accuracy
- "high flow" plus "low flow" is total consumption

Corrective Action Taken (Apr 15-19)



Commit each read record to be used in bill processing, as it is checked versus after all reads have been uploaded

- Nine months of testing on the upload interface using meter reading files from the CAS system
- ◆ Three (of six) "Dress Rehearsals" testing the full system and business processes, from securing actual meter reads, to upload, to read processing for billing, to Hi-Lo checks, etc.
- Specific condition of Compound Meter read with notes, and the records being out of sequence was not encountered

### **Major Contributor**

 Missing Reading Because No Read Obtained During the Billing Cycle

### Corrective Action Taken

- Increased Meter Reader Staff
- ◆ Aggressive AMR and Follow-Up activities
- Refinements of Meter Routing
- System "Auto Cancel Rebill" feature

### **Major Contributor**

Posted Meter Reading Record Indicates No Read Was Possible

### Corrective Action Taken

- Battery Replacement Project (Feb-Apr)
- Meter Repair and Replacement (ongoing)

### Major Contributor

- ▲ Actual Meter Reading Failed Hi-Lo Check Corrective Action Taken
- Increased Pre-Audit Staff with CC&B Team Assisting (Ongoing)
- ▲ Adjusted the Hi-Lo Thresholds (twice since Go-Live)
- ♦ Moved Maximum Estimated Bill Limit from six to three (July 12 – system holds bill)

### Corrective Action Taken (cont'd)

▶ Implemented Max Bill Threshold by Account (Oct. 10) – effectively billing on actual reading in most cases, except when the reading is extremely low (less than 20% of average usage - then it estimates if manual review is not done), or the bill amount is extremely high (3 times the average bill - holds bill).

### What's Next

- Continued monitoring of metrics and measures to ensure performance
- Determining optimal ongoing staffing levels as the stabilization continues
- Defining and planning Phase II enhancements as well as deferred Phase I functions

### Conclusion

AS OF NOVEMBER 2013

- ♦ 2 to 16 Minutes Max Call Wait Time
- ♦ 95%+ of Calls Answered
- ♦ 98-99%+ of Meters Being Read
- ♦ < 500 System Estimated Bills as of 11/15
  </p>

### Conclusion

- Initial issues encountered since Go-Live have been resolved, resulting in significant performance improvements.
- ► BWS continues to monitor and improve all aspects of our transition to a monthly billing process with the new system, as we approach operational stability.



# Mahalo

### Table of states that regulate retroactive billing by a water utility company when a customer underpays their water bill.

The right hand column has the specific administrative rules, and a **bolded** summary. On the right is the actual rule. In highlighted selections are the salient points in each rule.

A 144	0.00	400	
44.1	100		540
		211	

A.A.C. R 14-2-409

Adjusted bills shall be rendered for meter error corrections.

R 14-2-210

Underbilling to residents, backbill is limited to 3 months.

Any underbilling resulting for a stopped or slow meter, utility or Meter Reading Service Provider meter reading error, or a billing calculation shall be limited to three months for residential customers and six months for non-residential customers. However, if an underbilling by the utility occurs due to inaccurate, false, or estimated information from a third-party, then the utility will have a right to backbill that third-party to the point in time that may be definitely fixed, or 12 months. No such limitation will apply to overbillings.

#### llinois

83 III. Adm. Code § 280.100

Underbilling limited to 1 year.

Backbilling from an underbilling situation occurs, must give notice to ratepayer after 2 consecutive bills, utility must work with ratepayer to establish payment plan. Payment cannot exceed normal bill plus 50%

A utility may bill for services or commodities provided to a residential customer only if such bill is presented within one year from the date of the service. No customer shall be liable for unbilled or misbilled service after expiration of the applicable statute of limitations.

When past due bills occur following the issuance of a "make-up" bill for previously unbilled utility service resulting from two or more consecutive estimated bills, utility billing error, meter failure, or undetected leakage or undetected loss of service (except in situations where tampering is involved and where the "make-up" bill exceeds the otherwise normal bill for such billing period by 50%), a utility shall review the bill with the customer and shall offer to accept payments towards the amount over the normal bill over a period mutually agreed to by the utility and the customer. The period of time shall be at least as long as the period over which the excess amount accrued. Where the excess billing resulted from undetected leakage or loss of service, the period shall be extended so that the bill rendered will not be greater than a normal bill, plus 50%.

§ 410.200

#### Maine

65-407 CMR 815,§8

Backbill issued, must apportion backbill to number of months since first backbill issued (i.e. – backbilled for 10 months, must apportion balance over next 10 months) service, including standard offer service, caused by a billing error, failure to read the customer's meter pursuant to Section 8(L), or a meter malfunction that could not have been reasonably detected by the customer or the utility, for service that was provided in the previous 12 months. In these circumstances, the utility must either apportion the usage evenly over the period in which the unbilled usage occurred or apportion the unbilled amount pursuant to the utility's usage algorithm. Once the usage has been properly apportioned over the unbilled period, the utility may re-bill the customer based on the approval rate schedule rates in effect during the unbilled period. A utility may also agree to a settlement that abates all or a portion of the previously unbilled service.

A utility may issue a corrected bill for previously unbilled

Ratepayer must be notified in writing that it is being back billed.

When a utility issues a make-up bill, it must notify the customer in writing of the right to a payment arrangement for the previously unbilled amount. The terms of a payment arrangement negotiated for the previously unbilled amount should take into account the period during which the unbilled service accrued, the length of time between the usage and the issuance of the bill, and the reason for the unbilled amount.

#### Marvland

COMAR 20.55.04.05

Backbilling limited to 12 months prior (unless prior auth. From Commission)

- (2)(a) Unless authorized by the Commission, retroactive billing may not be for undercharges which occurred more than 12 months before the discovery of the error. A utility may seek the Commission's authorization for retroactive billing for undercharges which occurred more than 12 months but not more than 3 years before the discovery of the error if the customer knew, or reasonably should have known that the bills were in error.
- (b) If the total undercharge is more than 35 percent of the customer's average monthly bill during the preceding 3 months, the customer shall be allowed to enter into an installment plan to pay the total retroactive billing, without interest. In such a plan the monthly payments against the undercharge may not exceed 35 percent of the customer's average monthly bill during the preceding 3 months. However, if the installment

If backbill exceed 35% of average monthly bill during

<u> </u>	
prior 3 months, must allow for payment plan.	plan will not recover within a 12-months period the total undercharge, the monthly payment may be equal to the total undercharge divided by 12 or a number greater than 12. (c) Unless otherwise authorized by the Commission, the utility may deny service for nonpayment only for that portion of the undercharge applicable to the 4 months immediately before the discovery of the error.
Part 7820-3800  Backbilling okay, limited to 1 year. Utility cannot backbill for undercharge that is issued after ratepayer complaint and utility failure to investigate, or complaint led to discovery of the undercharge.	When a customer has been undercharged, the amount of the undercharge may be billed to the customer. The utility shall calculate the difference between the amount collected for service rendered and the amount the utility should have collected for service rendered for the period beginning one year before the date of discovery. If the recalculated bills indicate that the amount due the utility exceeds \$10, the utility may bill the customer for the amount due. But a utility must not bill for any undercharge incurred after the date of a customer inquiry or complaint if the utility failed to begin investigating the matter within a reasonable time and the inquiry or complaint ultimately resulted in the discovery of the undercharge.
Missouri 4 CSR 240-13.020  No backbilling for more than 3 consecutive months.	A utility shall not render a bill based on estimated usage more than three consecutive billing periods or one year, whichever is less, except under certain conditions. When a utility underestimates a customer's usage, the customer shall be given the opportunity, if requested, to make payments in installments.
New Mexico N.M. Admin. Code 17.5.410.14  No backbilling more than 2 consecutive billing periods w/o prior approval of utility commission.	A utility may not render a bill based upon on estimated usage for more than two consecutive billing periods without prior notification to the commission, nor for an initial or final bill for service, unless otherwise agreed to by the residential customer and the utility.
New York 16 NYCRR 11.14  Backbilling limited to 2 years prior.	No utility shall charge a customers for service rendered more than six months prior to the mailing of the first bill unless the failure of the utility to bill at an earlier time was not due to the neglect of the utility or was due to the culpable conduct of the customer.

A utility shall not adjust upward a bill previously rendered to a customer after 12 months from the time the service to which the adjustment pertains was provided unless: (1) failure to bill correctly was caused by the customer; (2) failure to bill correctly was not due to the neglect of the utility; (3) such adjustment is necessary to adjust a budget payment plan; or (4) there was a dispute between the utility and the customer concerning the charges for services during the 12-month period.

A utility issuing a billing adjustment increase of \$100 or more shall notify the customer in writing that he or she has the right to pay the adjusted bill in regular monthly installments tailored to the customer's financial circumstances over a reasonable period.

A utility adjusting any change for service rendered 12 or more months prior to the date of issuance shall include with the bill a notice giving the reason for the adjustment.

No utility may render a bill for previously utilized service or adjust upward a bill previously rendered to a residential customer after the expiration of 24 months from the time the service to which the new billing or adjustment pertains was provided unless the conduct of the customer caused or contributed to the failure of the utility to render a timely or accurate billing.

#### Pennsylvani

52 Pa. Code § 56.12, § 56.14, and § 56.262

Backbilling okay, if exceeds either 50% of average monthly bill or \$50, then must contact ratepayer, explain bill and make reasonable attempt to spread cost over time.

When the actual meter reading shows that the customer was underbilled due to an error in the registration of the remote reading device, the utility company can bill for the uncollected amount. If the rebilling exceeds the otherwise normal estimated bill for the billing period during which the bill is issued by at least 50% or at least \$50, the utility company shall comply with § 56.14, which requires the utility company to explain the bill to the customer and make a reasonable attempt to amortize the bill. The period of the amortization may, at the option of the customer, extend at least as long as the period during which the excess amount accrued or as necessary so that the quantity of service billed in any one billing period is not greater than normal estimated quantity for that period plus 50%.

#### Texas

16 TAC §7.45 and § 25.28

Any under-billing or over-billing due to meter error may be corrected in subsequent bills, unless the service is terminated. The utility company may backbill a customer for the amount

Backbilling okay, but cannot backbill on charges that are more than 6 months old (unless customer theft) that was underbilled. The backbilling shall not collect charges that extend more than 6 months from the date the error was discovered unless the underbilling was the result of theft by the customer. If the underbilling is \$50 or more, the utility company shall offer the customer a deferred payment plan option for the same length of time as that of the underbilling. A deferred payment plan need not be offered to a customer whose underpayment was due to theft of service. The utility company shall not charge interest on the underbilled amounts unless such amounts are found to be the result of theft of service (meter tampering, bypass, or diversion) by the customer.

#### Wisconsin

PSC 185.33 (water service) & PSC 134.12 (gas service)

Backbilling permitted.

Bills issued for utility service that was previously unbilled because of meter diversion or tampering with the meter may include a late payment charge when issued.

An occupant who uses utility services but does not apply for it, may be billed an estimated amount or actual amount at a later date for service used prior to the time of application. The utility shall have reasonable grounds to establish responsibility for the backbilling. Failure to pay charges resulting from this backbilling may result in disconnection of service.

#### Hawaii - PUC

Standards for Electric Utility Service in the State of Hawaii, General Order No. 7.

4.3 Customer Bill Forms

4.5 Adjustment of Bills

The utility shall bill each customer as promptly as possible following the reading of his meter. The bill shall show: . . . f. A distinct marking to identify an estimate bill.

- a. General . . . adjustment of bills for service for the period of inaccuracy shall be made in the case of over-registration (overbilling) and may be made in the case of under-registration (underbilling).
- b. Determination of adjustment
  - 1. For defective meter
    - a. adjustments due to slow meters is limited to preceding 3-month period.
    - b. (for underbilled customers, "slow meters", adjustment period is limited to preceding 3 months). For overbilled customers, adjustment period limited to preceding 6 months

#### ITEM FOR INFORMATION NO. 3

"November 25, 2013

REVISION OF THE 2013-2014 CIP PROGRAM BUDGET -AMENDMENT NO. 2 Chairman and Members Board of Water Supply City and County of Honolulu Honolulu, Hawaii 96843

Chairman and Members:

Subject:

Revision of the 2013-2014 Capital Improvement Program

Budget - Amendment No. 2

The current Capital Improvement Program (CIP) Budget shall be amended as described below:

Appropriation

Present

Proposed

1. Add the following CIP project and appropriation:

Item No. 65 EMERGENCY
GENERATORS AT BWS FACILITIES

OPERATING FUND

CONST

5,745,000

The initial phase of this project will install stationary emergency generators at selected pump stations/well facilities to improve the reliability of water service in the event of a sustained power outage. This project will be a pilot implementation under the Alternative Project Delivery (APD) method.

Delete the following CIP projects and appropriations:

Item No. 31 PALOLO WATER SYSTEM IMPROVEMENTS, PART III

OPERATING FUND

CONST

1,895,000

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Item No. 32 PALOLO WATER SYSTEM IMPROVEMENTS, PART IV

**OPERATING FUND** 

CONST

4,700,000

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The Palolo Water System Improvement projects (Item Nos. 31 and 32) will be deferred to allow further investigation of available technologies for pipeline rehabilitation rather than main replacement. The Palolo Water System Improvement projects were intended to be a pilot implementation under the APD method.

#### Appropriation

Proposed Present

3. Decrease the appropriation for the following CIP project:

Item No. 20 PUMP RENEWAL AND REPLACEMENT

OPERATING FUND P&E

500,000

300,000

This project's cost estimates indicate that this appropriation can be reduced and the funds made available for other CIP projects.

4. Increase the appropriation for the following CIP project:

Item No. 4 PUMP RENEWAL AND REPLACEMENT

OPERATING FUND

CONST

100,000

1,150,000

This project requires an increase in appropriation to address equipment renewals at Halawa, Makaha, Newtown, Wilder and Wailupe pumps and plant facilities.

The appropriate pages of the current Capital Improvement Program budget will be revised for distribution

Respectfully submitted,

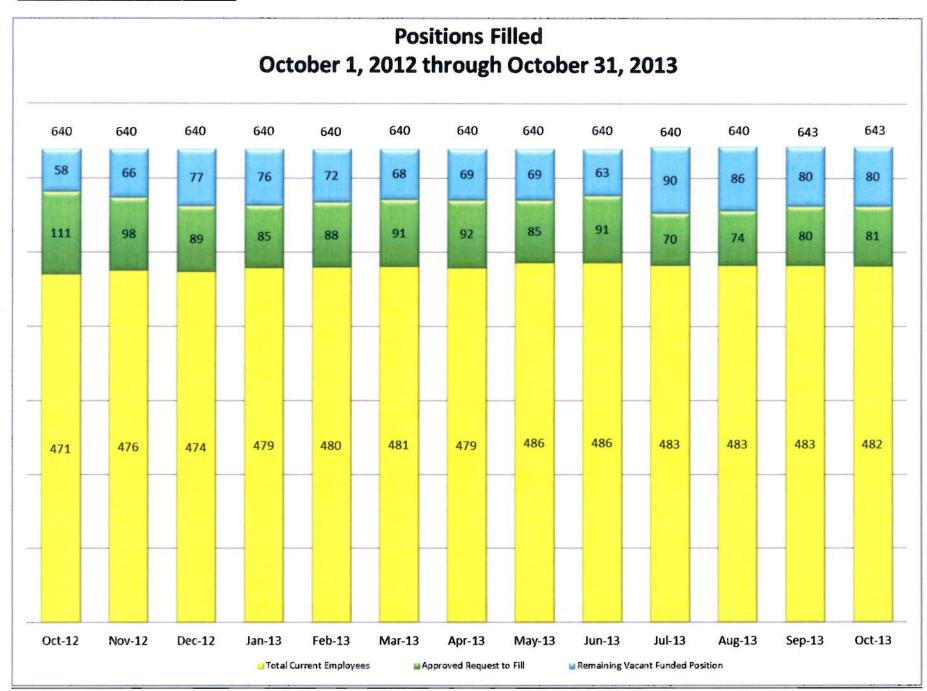
/s/

ERNEST Y. W. LAU, P.E. Manager and Chief Engineer"

The foregoing was for information only.

DISCUSSION:

Mr. Wong stated that this is a big mid-year amendment and asked if there was something that came up to require this change. Mr. Lau informed the Board about his concern about having only six generators for all their facilities. As a result of a recent tsunami, this project looks to install emergency generators. Ms. Cypher inquired about long-term cost. Mr. Lau replied that generators require an ongoing maintenance cost, which needs to be exercised on a monthly basis.



November 25, 2013

Regular Session Minutes

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Cumulative Totals
October 1, 2012 through October 31, 2013



#### DISCUSSION:

Karen Tom of the Human Resources Office went over the recruitment status. Ms. Cypher asked if there is a large amount of employees expected to retire at the end of this year. Ms. Tom replied that they anticipate only about 3 to 4 employees who will retire at the end of December.

#### ITEM FOR INFORMATION NO. 5

#### BOARD OF WATER SUPPLY HUMAN RESOURCES PLAN

#### DISCUSSION:

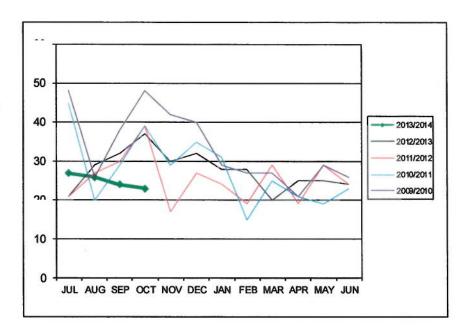
Mr. Miyashiro asked Ms. Tom what's the estimated time length for this presentation. Ms. Tom stated about 10 minutes. Mr. Miyashiro apologized to Ms. Tom, but deferred this item due to the heavy agenda and also since Ms. McMurdo would not be able to hear the presentation since she needs to leave soon. Mr. Miyashiro asked for comments, questions, or discussion regarding this item. Hearing none, Mr. Miyashiro deferred this item to a future Board meeting.

#### WATER MAIN REPAIR REPORT

#### for October 2013

range (	JUL	AUG	SEP	ОСТ	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	Total
2013/2014	27	26	24	23									100
2012/2013	21	29	32	37	30	32	28	28	20	25	25	24	331
2011/2012	21	27	30	39	17	27	24	19	29	19	29	24	305
2010/2011	45	20	29	39	29	35	31	15	25	21	19	23	331
2009/2010	48	26	38	48	42	40	29	27	27	21	29	26	401

Date	<u>Address</u>	Size	Cause
10/2	247 Paiko Dr.	8" C.I.	corrosion
10/3	1181 Hoolaulea St.	8" C.I.	corrosion
10/3	1293 Ala Hoku Pl.	16" C.I.	damage
10/3	45-572 Apapane St.	8" C.I.	unknown
10/4	72 Dowsett Ave.	8" P.V.C.	unknown
10/6	951 Valley View Dr.	8" C.I.	unkknown
10/8	1519 Queen Emma St.	6" C.I.	corrosion
10/8	1500 Queen Emma St.	6" C.I.	corrosion
10/9	5866 Haleola St.	8" C.I.	corrosion
10/9	36 Dole Rd.	6" C.I.	corrosion
10/10	94-347 Kahuawai St.	8" C.I.	corrosion
10/11	99-539 Hoio St.	8" C.I.	unknown
10/12	3375 Koapaka St.	12" C.I.	corrosion
10/14	45-529 Keaahala Rd.	6" C.I.	unknown
10/15	92-7007 Elele St.	8" D.I.	joint
10/17	5509 Kawaikui St.	8" C.I.	corrosion
10/17	742 Hoomalu St.	8" C.I.	unknown
10/18	1243 Auwai Dr.	8" C.I.	corrosion
10/18	3007 Kahaloa Dr.	6" C.I.	corrosion
10/22	1652 Hooheno St.	8" C.I.	corrosion
10/27	2960 Kahawai St.	8" P.V.C.	pressure
10/28	44-311 Kaneohe Bay Dr.	12" D.I.	corrosion
10/29	7131 Makaa St.	8" D.I.	corrosion



Bold \* - Pro-active Leak Repair

41 miles of pipelines were surveyed by the Leak Detection Team in the month of October

#### DISCUSSION:

Field Operations Assistant Program Administrator Duke Chung informed the Board that the number of main breaks is declining. Mr. Chung believes that adjustments to the system by both Field Operations and Water System Operations Divisions have resulted in the decline of main breaks. Mr. Okimoto questioned if they adjusted the pressure. Mr. Lau replied that they optimized system operations by valve manipulation and by managing pressures to allow for free flow of water to fill in reservoirs.

Mr. Miyashiro commented on the increase of miles of leak detection from 15 miles in September to 41 miles in October and encouraged the Department to continue with the proactive leak repair. Mr. Lau stated that the target is in the range of 70 miles to be surveyed, which means getting through the entire system in three years. He also mentioned that the Leak Detection Team now has a permanent home in the Field Operations Division.

Mr. Miyashiro thanked Mr. Chung for his report.

#### ITEM FOR INFORMATION NO. 7

"November 25, 2013

GROUNDWATER LEVELS Chairman and Members
Board of Water Supply
City and County of Honolulu
Honolulu, Hawaii 96843

Chairman and Members:

Subject: Status Update of Groundwater Levels at All Index

Stations

There are three aquifer index wells within low groundwater status for the production week that ended on November 2, 2013. Punaluu and Kaluanui are in caution status, and Kaimuki is under an alert status. The weekly production average for the period was 138.13 million gallons per day.

The Board of Water Supply rainfall index for the month of October was 63 percent of normal, with a 5-month moving average of 80 percent. The Hawaii Drought Monitor site indicates abnormally dry (D0) conditions across most of Oahu as of November 5, 2013. The National Weather Service is forecasting normal precipitation through February 2014, but below average rainfall thereafter to the end of May 2014. Although the weekly production has been below the 5-year production average, aquifer recovery has been protracted due to below normal rainfall.

Respectfully submitted,

/s/ ERNEST Y. W. LAU, P.E. Manager and Chief Engineer

Attachments"

The foregoing was for information only.

DISCUSSION:

Water Resources Program Administrator Barry Usagawa presented his report. Ms. Cypher inquired about Kaimuki and if there was any way to mitigate the continuing below normal status. Mr. Usagawa explained that there is a low and a high pump system in Kaimuki. So long term, they're looking at the Waialae West Well high service to take some load off Kaimuki. Pumpage needs to be cut back. Even if it's under the permitted use of 4 million gallons per day, the water levels are still depressed at that rate so there may be a tie to rainfall in the upper Manoa and Palolo areas. Another strategy being looked at is to reduce or replace some of the irrigation water at the Ala Wai golf course with recycled water. The Rockerfeller Foundation's RE.invest initiative working with the Mayor, selected Honolulu as one of eight cities throughout the nation that

qualifies for grants on funding and implementation expertise for green infrastructure. One of the potential Honolulu projects is onsite water recycling plants. Ala Wai golf course is a good opportunity to develop recycled water to replace the potable irrigation water from Kaimuki Station. Ala Wai golf course is irrigated with a quarter million gallons a day of potable water because their brackish water well is too brackish. If that could be replaced, it could cut back demand on Kaimuki.

Ms. Cypher asked if Kaimuki also supplies water to Waikiki.

Mr. Usagawa replied that in part, yes. As of this week, half of the low Kaimuki system pumped less than a million gallons per day. The low service feeds parts of Kapahulu into Waikiki. Mr. Usagawa replied to Ms. Cypher's inquiry by stating that there are a number of conservation measures such as ultra-low flow toilets and chilled water air conditioning improvements, etc., that can be pursued in Waikiki.

Mr. Miyashiro asked Mr. Usagawa to confirm that the Waihee tunnel numbers are now normalized. Mr. Usagawa confirmed that they adjusted their monitoring procedures to make sure the Waihee Line Booster pump is not operating in order to give a truer read on what the pressure is behind the bulkhead.

#### PUMPAGE, HEAD, AND RAINFALL REPORT Week of 10/27/13 to 11/02/13

STATION		MGD	HEAD	STAT	0100	MGD	HEAD	STAT		MGD	HEAD			MGD	HEAD
METR	80			WINDWAR	RD			EWA-WAIAN	AE (CONT)		-	PH (Co			
KULIOUOU		0.00						MAKAHA IV		0.00		PEARL CITY		1.13	
WAILUPE		0.00		WAIMANALO	)	0.20		MAKAHA V		0.00		PEARL CITY	111	0.41	
WAIALAE-IKI		0.00		WAIMANALO	) III	0.40		MAKAHA VI		0.26		WAIAU		1.40	
AINA KOA		0.41		KUOU I		0.00		MAKAHA SHAI	<u>-T</u>	0.06	10.36	NEWTOWN		2.08	-
AINA KOA II		0.83		KUOU II		0.09		KAMAILE		0.83		KAONOHI I		0.92	
WAIALAE SHAFT		0.00		KUOU III		0.38		WAIANAE I		0.09		WAIMALU I		0.00	
MANOA II		0.00		LULUKU		0.94		WAIANAE II		0.20		AIEA	- water	0.00	-
PALOLO		1.09		HAIKU		0.33		WAIANAE III		0.00		AIEA GULCH	497	0.43	
KAIMUKI HIGH		3.78	21.45	IOLEKAA		0.15		MAKAKILO		0.00		AIEA GULCH	550	0.25	
KAIMUKI LOW		0.76		KAHALUU		0.49		HONOULIULI I		0.64		HALAWA 277		0.80	
WILDER		9.90		WAIHEE		0.00		HONOULIULI I	l	6.81		HALAWA 550	)	0.00	
BERETANIA HIGH	1	4.69	21.47	KAHANA		0.85			SUBTOTAL:	10.36		KAAHUMA	ANU MTR(-)	0.00	
BERETANIA LOW		1.69		PUNALUU I		0.00	16.19	IMPORT F	ROM PH			KAAMILO F	LO MTR (-)	0.00	
KALIHI HIGH		0.70	21.34	PUNALUU II		1.28		KAPOLEI LINE	BSTR	14.57		KUNIA I		5.99	18.28
KALIHI LOW		2.18	21.01	PUNALUU III		1.44		HONOULIULI I	B FLOW	2.22		KUNIA II		1.91	
KAPALAMA	11.51	1.13		KALUANUI		1.30		EWA BEACH F	LOW	0.58		KUNIA III		1.40	
KALIHI SHAFT		8.42		MAAKUA		0.55		HON	OULIULI I (-)	-0.64		HOAEAE		6.39	
MOANALUA		1.13	18.61	HAUULA		0.00		HONG	DULIULI II (-)	-6.81		EWA SHAFT		0.00	
	SUBTOTAL:	36.72		Company of the control of the contro	SUCCESSION OF				SUBTOTAL:	9,92		WAIPAHU	INTCON. (-)	-2.07	
				KAHUKU		0.95						EWA-V	VAIANAE (-)	-9.92	
IMPORT FF	ROM PH			OPANA		0.31		PEARL H	ARBOR			PH L	OCAL USE:	29.72	
HALAWA SHAFT		7.06	16.32	WAIALEE I		0.47		WAHIAWA		1.91		TOTAL S	BUBURBAN:	62.39	
KAAMILO		0.00		WAIALEE II		0.54		WAHIAWA II		1.66					
KALAUAO		7.91	16.82	SUNSET BE.	ACH	0.00		MILILANI I		2.14		KALAUAO S	PRINGS	0.43	
PUNANANI		10.98		S	UBTOTAL:	10.67		MILILANI II		0.00		BARBERS PO	OINT (NP)	1.92	
KAONOHI II		0.00						MILILANI III		0.67		GLOVER TU	NNEL (NP)	0.53	
WAIMALU II		0.00	14.79	WIND. EX	XPORT	0.50		MILILANI IV		2.10					
KAAHUMANU		0.86						WAIPIO HTS.		0.37		H	EAD CONDIT	ION	
HECO WAIAU		2.78		HALEIWA-W	AIALUA			WAIPIO HTS.		0.17		CAUTION	ALERT	CRIT	ICAL
MANANA		0.48		HALEIWA		0.00		WAIPIO HTS.	II	0.37		Punaluu	Kaimuki		
KAAHUMA	NU FLOW MT	0.00		WAIALUA		2.22		WAIPIO HTS.	ш	0.86		Kaluanui			
KAAMIL	O FLOW MTR	0.00		S	UBTOTAL:	2.22		WAIPAHU		2.07	18.01				
TOTAL IMP/E	XP WAIP, INT:	2.07						WAIPAHU II		0.18					
IMPOR	RT FRM WIND:	0.50		EWA-WA	IANAE			WAIPAHU III		3.26					111111111111111111111111111111111111111
	SUBTOTAL:	32.65		MAKAHA I		0.57		WAIPAHU IV		2.28					
				MAKAHA II		0.27		PEARL CITY S	SHAFT	0.00	14.48				
то	OTAL METRO:	69.36		MAKAHA III		0.61		PEARL CITY		0.57					
												T			
CV	VRM PERMITTE			T		S	-	PUMPAGE	2013	10 200	012	GRAVITY	2013	-	12
	Α		В	С	D		E	SUBURB.	62.39		5.11	SUBURB.	6.13	111111111111111111111111111111111111111	.32
WATER	PERMITTED			DIFF.	YEAR/	123	IFF.	METRO	69.36		3.93	METRO	0.25	100.00	37
DISTRICTS	USE	-	013	B-A	DATE		D-A	TOTAL:	131.76	13	4.04	TOTAL:	6.38	13	.69
HONOLULU	45.27		5.97	-8.30						-		Manoa	0.17		
WINDWARD	25.21		3.06	-12.15				NUUANU #5			4.50	Palolo	0.08		
NORTH SHORE	4.08		.48	0.40		_		(rainfall)	0.58"	<b> </b>	15"	Waim. I&II	0.19		
WAHIAWA	4.27	3	.57	-0.70						-		Waim. III&IV	0.19		
WAIANAE	4.34	3	.76	-0.58		-	75-2			-		Waihee incl.	1.01		
EWA-KUNIA	15.88	7	.45	-8.43						-		Waihee tun.	1.37		
PEARL HARBOR	92.66	68	3.22	-24.44								Luluku	0.00		
TOTAL:	191.71	13	7.52	-54.19								Haiku	0.00		
												Kahaluu	1.90		
												Waia, C&C	1.37		
								Language Comment				Waia plant.	0.11		

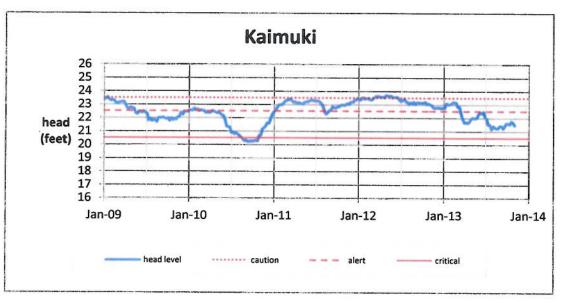
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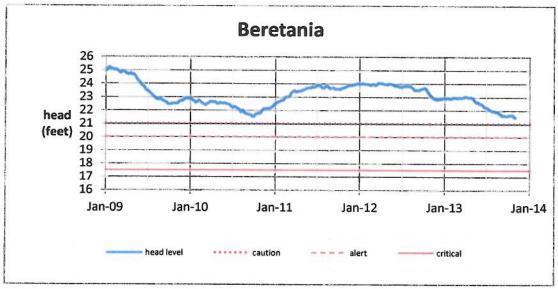
WATER USE DISTRICT	AUTHORIZED USE	2012	10/06- 10/12 2013	2012	10/13- 10/19 2013	2012	10/20- 10/26 2013	2012	10/27- 11/02 2013
HONOLULU	45.27	32.91	36.83	31.91	37.29	33.59	39.50	32.90	37.47
WINDWARD	25.21	16.19	11.04	24.27	9.56	17.56	9.51	19.83	12.56
NORTH SHORE	4.08	3.64	4.57	3.52	4.68	3.67	4.50	4.34	4.48
WAHIAWA	4.27	2.83	3.85	2.69	3.73	2.75	3.76	2.76	3.57
EWA-WAIANAE	20.22	25.23	21.92	25.33	21.16	26.50	20.80	25.62	21.75
PEARL HARBOR	92.66	65.17	61.46	63.41	58.60	64.28	59.93	62.25	58.30
TOTAL	191.71	145.97	139.67	151.12	135.02	148.35	139.99	147.70	138.13

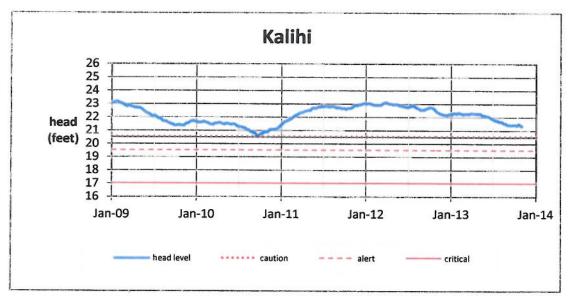
Accounts for in-district pumpage and transfers

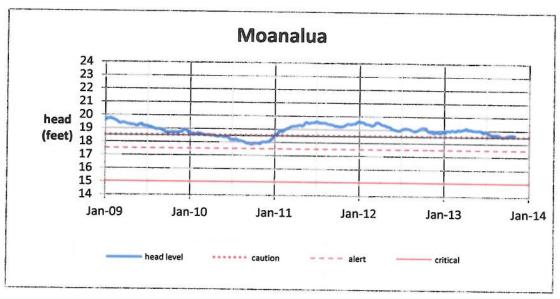
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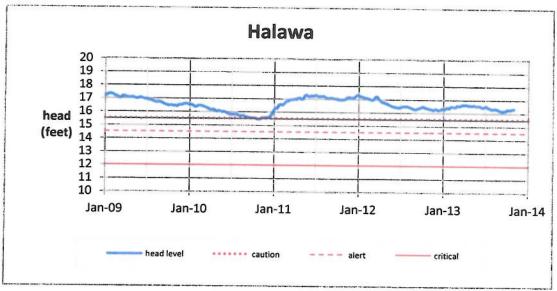
	2012	10/06- 10/12 2013	2012	10/13- 10/19 2013	2012	10/20- 10/26 2013	2012	10/27- 11/02 2013
HONOLULU								
KAIMUKI	23.20	21.53	23.01	21.74	23.08	21.65	22.99	21.45
BERETANIA	23.62	21.64	23.43	21.68	23.25	21.57	23.10	21.47
KALIHI	22.69	21.38	22.66	21.48	22.52	21.41	22.38	21.34
MOANALUA	19.14	18.62	18.97	18.65	18.86	18.63	18.86	18.61
PEARL HARBOR								
HALAWA	16.40	16.32	16.34	16.27	16.35	16.31	16.27	16.32
KALAUAO	17.00	16.76	16.91	16.76	16.93	16.80	16.93	16.82
PEARL CITY	14.72	14.48	14.70	14.50	14.68	14.48	14.70	14.48
WAIPAHU	18.23	17.93	18.31	17.96	18.28	18.03	18.28	18.01
KUNIA	18.52	18.16	18.53	18.25	18.54	18.32	18.51	18.28
EWA-WAIANAE							74-5-11	
MAKAHA	12.69	9.63	12.94	9.98	12.38	10.27	12.47	10.36
WINDWARD								
PUNALUU	15.64	16.26	15.62	16.31	15.51	16.22	15.38	16.19
KALUANUI	15.42	15.99	15.53	16.04	15.42	16.03	15.32	15.96
NORTH SHORE								
WAIALUA	11.32	11.37	11.26	11.34	11.20	11.37	11.20	11.30

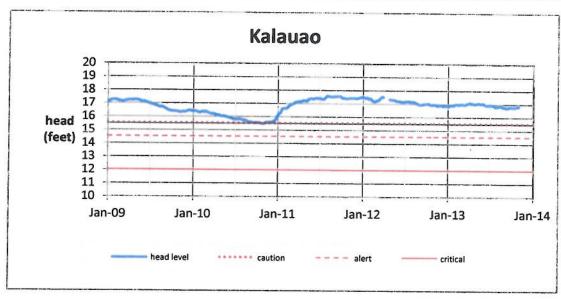


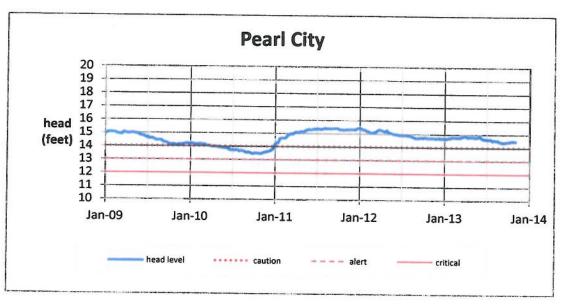


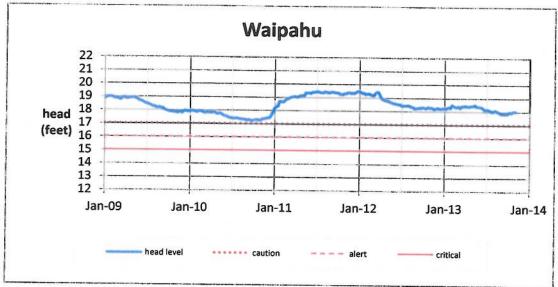


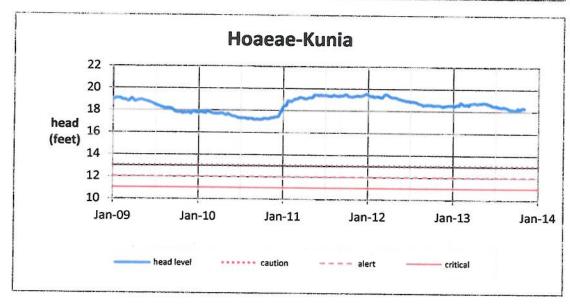


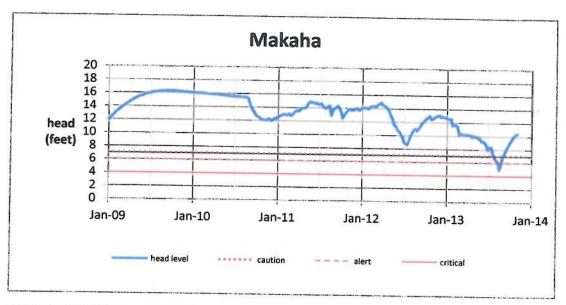


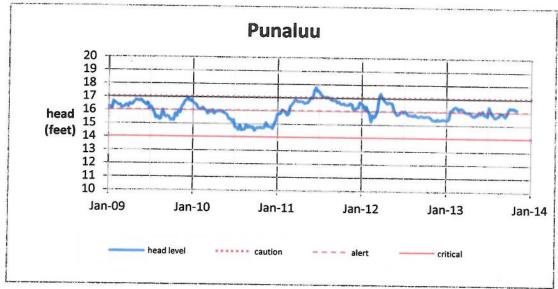


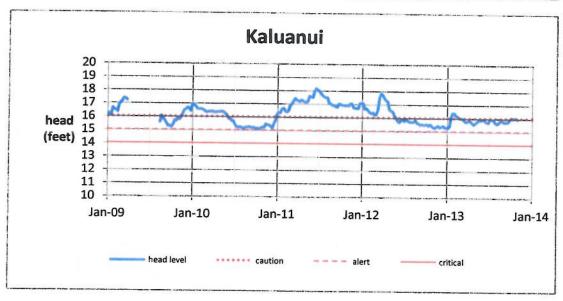


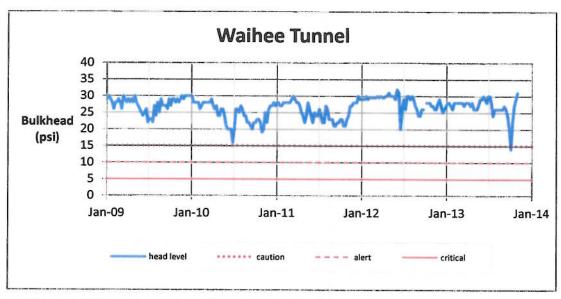


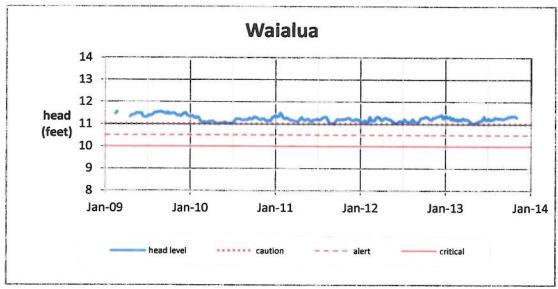


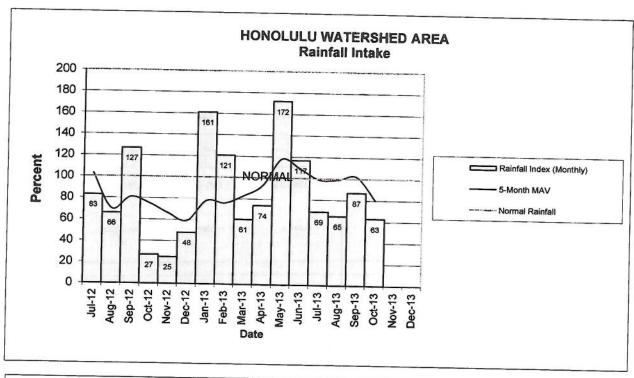


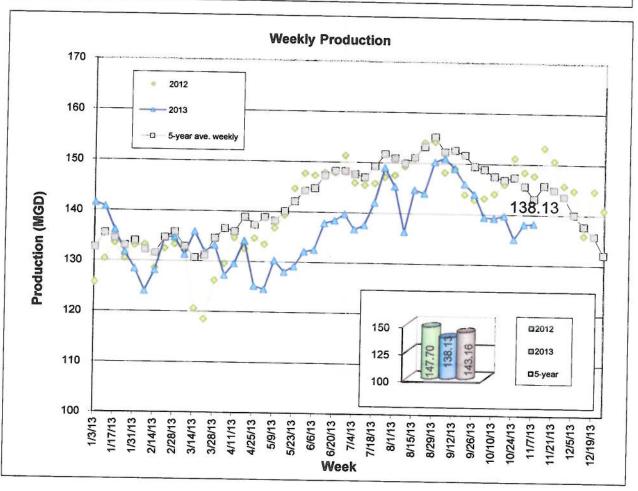












#### ITEM FOR INFORMATION NO. 8

"November 25, 2013

SCHEDULE OF 2014 MONTHLLY BOARD MEETINGS Chairman and Members Board of Water Supply City and County of Honolulu Honolulu, Hawaii 96843

Chairman and Members:

Subject:

Schedule of Monthly Board Meetings for

Calendar Year 2014

Attached for your information is the schedule of Board Meetings for the calendar year 2014.

Respectfully submitted,

/s/

ERNEST Y. W. LAU, P.E. Manager and Chief Engineer

Attachment"

The foregoing was for information only.

DISCUSSION:

There were no comments or discussion.

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

#### 2014 BOARD MEETING SCHEDULE

Board Meetings are scheduled for the fourth Monday of each month at 2:00 p.m., in the Public Service Building (PSB) Board Room, unless otherwise noted.

January 27

February 24

March 24

April 28

May 27 (Tuesday) (Monday, May 26 is a Holiday)

June 23

July 28

August 25

September 22

October 27

November 24

December 15 (3<sup>rd</sup> Monday in December)

MOTION TO RECESS INTO EXECUTIVE SESSION	Upon unanimously approved motion, the Board Recessed into Executive Session Pursuant to [HRS § 92-5] at 3:54 PM to Consult with the Board's Attorney and to Consider Issues Pertaining to Matters Posted for Discussion at an Executive Session
OPEN SESSION	The Board reconvened in open session at 4:27 PM
MOTION TO ADJOURN	There being no further business Chair Miyashiro at 4:27 PM called for a motion to adjourn the Open Session. Adam Wong so moved; seconded by Ross Sasamura and unanimously carried.

	AYE	NO	COMMENT
DUANE R. MIYASHIRO	Х		
MAHEALANI CYPHER			ABSENT
THERESIA C. MCMURDO			ABSENT
ADAM C. WONG	X		
DAVID C. HULIHEE			ABSENT
ROSS S. SASAMURA	X		
GLENN M. OKIMOTO	X		

Respectfully submitted,

ISA K. KIM

APPROVED:

DUANE R. MIYASHIRO Chairman of the Board

DEC 16 2013

Date