

MINUTES

REGULAR MEETING OF THE BOARD OF WATER SUPPLY

October 27, 2014

At 2:02 PM on October 27, 2014 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, Chair
Adam C. Wong, Vice Chair
Theresa C. McMurdo (arrived at 2:09 p.m.)
Ross S. Sasamura
Ford N. Fuchigami

Also Present: Ernest Lau, Manager and Chief Engineer
Ellen Kitamura, Deputy Manager and Chief Engineer
Alex Ubiadas
Barry Usagawa
Erwin Kawata
Daryl Hiromoto
Mike Matsuo
Henderson Nuuhiwa
Joe Cooper
Karen Tom
Jill Kuramoto

Others Present: Winston Wong, Deputy Corporation Counsel
Marilyn Ushijima, Deputy Corporation Counsel
Chris Cleveland, Brown and Caldwell
Craig Von Bargen, CDM Smith
Cindy Yee, Accuity LLP
Chris Ichiki, Accuity LLP
Gordon Pang, Star-Advertiser
Dan Purcell

Absent: Mahealani Cypher
David C. Hulihee

APPROVAL
OF MINUTES

Approval of the Minutes of the Regular Meeting held on September 22, 2014

MOTION
TO APPROVE

Ross Sasamura and Ford Fuchigami motioned and seconded, respectively, to approve the Minutes of the Regular Session Meeting of September 22, 2014. The motion was unanimously carried.

"October 27, 2014

ADOPTION OF
RESOLUTION
NO. 848, 2014

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

Chair and Members:

Subject: Adoption of Resolution No. 848, 2014, Requesting
The President of the United States to Direct the Office of
Management and Budget to Approve the Regulation of
Field Constructed Underground Fuel Tanks and Urge the
United States Environmental Protection Agency to Make
Funds Available to the Board of Water Supply to Study the
Impacts of Red Hill Fuel Releases on Oahu's Groundwater

We recommend adoption of Resolution No. 848, 2014, which requests The President of the United States to direct the Office of Management and Budget to approve the regulation of Field Constructed Underground Fuel Tanks and to urge the United States Environmental Protection Agency to make funds available to the Board of Water Supply to study the impacts of Red Hill fuel releases on Oahu's groundwater.

Respectfully submitted,

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

Attachment"

DISCUSSION:

Manager Lau briefed the Board on the resolution and stated that their recommendation is to transmit the resolution, if adopted by the Board today, via a letter to The President of the United States, signed by the Board Chair and the Manager.

MOTION TO
ADOPT
RESOLUTION
NO. 848, 2014

Ross Sasamura motioned to adopt Resolution No. 848, 2014, Requesting The President of the United States to Direct the Office of Management and Budget to Approve the Regulation of Field Constructed Underground Fuel Tanks and Urge the United States Environmental Protection Agency to Make Funds Available to the Board of Water Supply to Study the Impacts of Red Hill Fuel Releases on Oahu's Groundwater. The motion was seconded by Adam Wong and unanimously carried.

BOARD OF WATER SUPPLY
CITY AND COUNTY OF HONOLULU

RESOLUTION NO. 848, 2014

REQUESTING THE PRESIDENT OF THE UNITED STATES TO DIRECT THE OFFICE OF MANAGEMENT AND BUDGET TO APPROVE THE REGULATION OF FIELD CONSTRUCTED UNDERGROUND FUEL TANKS AND URGE THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY TO MAKE FUNDS AVAILABLE TO THE BOARD OF WATER SUPPLY TO STUDY THE IMPACTS OF RED HILL FUEL RELEASES ON OAHU'S GROUNDWATER

WHEREAS, the Red Hill Underground Fuel Storage Facility is located near Pearl Harbor and operated by the United States Navy; and

WHEREAS, the Red Hill facility was built between 1940 and 1943 and contains twenty cylindrical tanks that can hold up to 12,500,000 gallons of fuel in each tank; and

WHEREAS, on January 13, 2014, the Navy reported a 27,000 gallon leak of JP-8 aviation fuel from Tank 5 to various federal, state and county agencies which prompted the Board of Water Supply (BWS) to temporarily shut down five water wells in the vicinity of the Red Hill facility as a proactive and precautionary measure to ensure the continuous safety of drinking water to the public; and

WHEREAS, studies commissioned by the Navy report past fuel releases from the facility dating back to 1949 and document the impact of corrosion on the steel fuel tanks, the presence of fuel contaminants in the groundwater and soil beneath the facility and the risks of large releases of fuel to the groundwater aquifer and the environment; and

WHEREAS, the BWS Halawa Shaft is approximately 5,000 feet northwest of the Red Hill facility and is one of the department's largest water source that provides water to thousands of Oahu residents; and

WHEREAS, the bottom of the Red Hill tanks is only 100-feet above the aquifer that serves as a source for drinking water, and the recent fuel leak and the findings of past Navy studies are of great concern to the BWS as to its potential impact to the long term quality and quantity of this important groundwater aquifer; and

WHEREAS, the Red Hill facility is a field constructed underground storage tank facility that is currently exempt from virtually all existing federal underground storage tank (UST) regulations under Title 40 Code of Federal Regulation Parts 280 and 281; and

WHEREAS, the United States Environmental Protection Agency (EPA) published on November 18, 2011, proposed changes to the UST regulations that would cancel the deferral of field constructed USTs from the federal regulations; and

WHEREAS, EPA's proposed rules are currently being reviewed and needs approval from the Executive Office of the President, Office of Management and Budget (OMB); and

WHEREAS, the Drinking Water State Revolving Fund (DWSRF) Loan Assistance and Other State Programs set-aside are able to provide states with direct assistance in the form of grants for source water protection area delineation, assessments and wellhead protection programs; and


WHEREAS, BWS would like to take immediate action and use the state set-aside funds for the design, construction, and testing of additional monitor wells to determine the impact of fuel releases beyond the Red Hill boundary on Oahu's groundwater aquifer; now, therefore

BE IT RESOLVED by the Members of the Board of Water Supply, City and County of Honolulu, that we respectfully request THE PRESIDENT of the United States to support EPA's proposed changes to Title 40 Code of Federal Regulation Parts 280 and 281 to regulate field constructed USTs; and

BE IT FURTHER RESOLVED that the Members of this Board respectfully request THE PRESIDENT direct OMB to approve EPA's changes as written and regulate field constructed tanks to protect Oahu and the nation's groundwater aquifers; and

BE IT FINALLY RESOLVED that the Members of this Board request THE PRESIDENT urge EPA to release drinking water set-aside state funds directly to BWS to use for the design, construction, and testing of additional monitor wells to enable BWS to proactively assess the impact of fuel releases beyond the Red Hill boundary on Oahu's groundwater aquifer.

ADOPTED:



DUANE R. MIYASHIRO
Chair

Honolulu, Hawaii
October 27, 2014

"October 27, 2014

ADOPTION OF
RESOLUTION
NO. 849, 2014

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

Chair and Members:

Subject: Resolution No. 849, 2014, Authorizing Up to \$160,000,000
Principal Amount of Series 2014 Bonds

We recommend the adoption and approval of Resolution No. 849, 2014, which authorizes and approves the issuance by the Board of Water Supply (BWS) at one time, of not to exceed \$160,000,000 principal amount of revenue bonds. The purpose of the bonds is to finance the calling and advance refunding of certain outstanding obligations of the BWS as deemed appropriate. The bonds shall be on terms and conditions as the BWS determined to be necessary and advisable.

Respectfully submitted,

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

Attachment"

DISCUSSION:

Mr. Lau explained that this resolution would allow the Department to pursue the refinancing of existing bonds to get lower interest rates that would create savings to the customers. Waterworks Controller Joe Cooper stated that this would lead to a savings of about \$15 - \$19 million a year. Mr. Lau added that this would be done in unison with refinancing being pursued using the Drinking Water State Revolving Fund with the State Department of Health.

Board Vice Chair Wong asked what the current rates of the bonds are. Mr. Cooper replied that the Department pays anywhere from 4.3 percent to 5.25 percent; while it's not certain what they would be refinanced at, it could be as low as 1.5 percent, so it would be a significant savings. Mr. Wong inquired if there is an upfront fee to refinance the bonds. Mr. Cooper replied that there is and the fees would come out of the proceeds of the bonds. Mr. Cooper also stated that the savings of \$15 - \$19 million that the Department would get would be net of those fees. Mr. Wong asked if those fees are budgeted, and Mr. Lau replied that the fees would be rolled into the refinancing of the bonds.

MOTION TO
ADOPT
RESOLUTION
NO. 849, 2014

Ross Sasamura motioned to adopt Resolution No. 849, 2014, Authorizing Up to \$160,000,000 Principal Amount of Series 2014 Bonds.
The motion was seconded by Adam Wong and unanimously carried.

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

**WATER SYSTEM REVENUE BOND
SERIES 2014 RESOLUTION NO. 849, 2014**

AUTHORIZING UP TO
\$160,000,000 PRINCIPAL AMOUNT OF SERIES 2014 BONDS

ADOPTED OCTOBER 27, 2014

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WATER SYSTEM REVENUE BOND
SERIES 2014 RESOLUTION

AUTHORIZING UP TO

\$160,000,000 PRINCIPAL AMOUNT OF SERIES 2014 BONDS

BE IT RESOLVED by the Board of Water Supply of the City and County of Honolulu, Hawaii, as follows:

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

Section 1.01. *Series 2014 Resolution.* (1) This Water System Revenue Bond Series 2014 Resolution, authorizing up to \$160,000,000 principal amount of Series 2014 Bonds, is supplemental to, and constitutes a Series Resolution within the meaning of and is adopted in accordance with Article X of, the Resolution, as hereinafter defined.

(2) It is hereby found and determined that it is necessary and required that the Board authorize and issue at this time a Series of Bonds to be designated as herein provided to provide monies to carry out one or more purposes of the Board.

Section 1.02. *Definitions.* (1) All terms which are defined in Section 1.01 of the Resolution shall have the same meanings, respectively, in this Series Resolution as such terms are given in said Section 1.01 of the Resolution.

(2) In addition, as used in this Series Resolution, unless the context shall otherwise require, the following terms shall have the following respective meanings:

“*Authorized Officer*” means the Manager, the Chief Financial Officer, the Waterworks Controller or other officer designated by resolution of the Board.

“*Resolution*” means that certain resolution adopted by the Board on April 26, 2001, entitled “A Resolution Authorizing and Providing for the Issuance of Revenue Bonds of the Board of Water Supply of the City and County of Honolulu, Hawaii, for the Purposes of the Water System of Said City and County; Covenanting as to the Establishment, Maintenance, Revision and Collection of Charges and Rates for the Use and Services of Said Water System and the Collection and Disbursement of the Revenues Derived Therefrom; Pledging the Net Revenues Derived from Said Water System to the Payment of the Principal of and Interest on Said Bonds as the Same Fall Due; Creating and Establishing Certain Funds and Accounts; Setting Forth the Limitations or Conditions Upon the Issuance by the Board of Additional Bonds Payable from the Aforesaid Revenues; and Making Other Covenants and Agreements in Connection with the Foregoing,” as amended and supplemented.

“*Series 2014 Bonds*” means the Bonds authorized by Article II of this Series 2014 Resolution.

“*Series 2014 Resolution*” means this Water System Revenue Bond Series 2014 Resolution authorizing up to \$160,000,000 principal amount of the Series 2014 Bonds.

“*Taxable Bonds*” means any Series 2014 Bonds which are not intended by the Board to be Tax-exempt Bonds.

“*Tax Certificate*” means the Tax Certificate executed by an Authorized Officer of the Board in connection with the issuance of the Series 2014 Bonds that are Tax-exempt Bonds.

(3) Words of any gender shall be deemed and construed to include correlative words of the other genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations and corporations, including public bodies, as well as natural persons.

(4) The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder,” and any similar terms, as used in this Series 2014 Resolution, refer to the Series 2014 Resolution.

Section 1.03. *Authority for the Series 2014 Resolution.* This Series 2014 Resolution is adopted pursuant to the provisions of the Act and the Resolution.

ARTICLE II

AUTHORIZATION, TERMS AND ISSUANCE OF SERIES 2014 BONDS

Section 2.01. *Authorization of Series 2014 Bonds, Principal Amount, Designation and Series.* One or more Series of Bonds entitled to the benefit, protection and security of the Resolution are hereby authorized to be issued in an aggregate principal amount not to exceed \$160,000,000. Each such Series of Bonds shall be designated as and shall be distinguished from the Bonds of all other Series by the title “Water System Revenue Bonds, Series _____,” (having inserted in such blank the year of issuance and any appropriate letter designation), pursuant to and subject to the terms, conditions and limitations established in the Resolution and this Series 2014 Resolution.

Section 2.02. *Purposes.* The purposes for which the Series 2014 Bonds are being issued are (1) to pay the costs of issuance of the Series 2014 Bonds; and (2) to fund a trust fund to provide for the refunding and redemption of all or a portion of the Board’s Water System Revenue Bonds, Series 2006A and/or the Board’s Water System Revenue Bonds, Series 2006B (the “Outstanding Bonds”).

Section 2.03. *Delegation of Authority.* (1) There is hereby delegated to any Authorized Officer of the Board, subject to the limitations contained herein and in the Resolution

and the Act, the power with respect to the Series 2014 Bonds to determine and carry out the following:

- (a) The sale of the Series 2014 Bonds at public or private sale and, if at private sale, the underwriter or underwriters; provided, however, that in the case of a private sale the purchase price paid by the purchasers thereof shall not be less than ninety percent (90%) of the principal amount of the Series 2014 Bonds so sold;
- (b) The principal amount of Series 2014 Bonds to be issued; *provided, however*, that the principal amount of Series 2014 Bonds shall not exceed \$160,000,000;
- (c) [reserved];
- (d) The Series designation of each Series of the Series 2014 Bonds, the date or dates, maturity date or dates and principal amount of each maturity of the Series 2014 Bonds or the method for calculating such dates and amounts, the amount and date of each Sinking Fund Installment, if any, or the method for calculating the Sinking Fund Installments and which Series 2014 Bonds are Serial Bonds or Term Bonds, if any, and the Record Date or Record Dates of the Series 2014 Bonds for which the Record Date or Record Dates is other than the fifteenth (15th) day (whether or not a Business Day) of the month next preceding an interest payment date for such Bonds;
- (e) The interest rate or rates, if any, of the Series 2014 Bonds or the manner of determining such rate or rates, the date from which interest on the Series 2014 Bonds shall accrue, the dates on which interest on the Series 2014 Bonds shall be payable, if any, and if any Series 2014 Bonds are Variable Rate Bonds, the Maximum Interest Rate and the Minimum Interest Rate for such Bonds, and the provisions, if any, as to the calculation or change of variable interest rates; provided, however, that the true interest cost (as determined by an Authorized Officer of the Board, which determination shall be conclusive) on the Series 2014 Bonds shall not exceed eight percent (8%) per annum in the case of Tax-exempt Bonds or ten percent (10%) per annum in the case of Taxable Bonds;
- (f) The Series 2014 Bonds which are Capital Appreciation Bonds, if any, the Valuation Dates for such Bonds and the Accreted Value on each such Valuation Date;
- (g) The Series 2014 Bonds which are Deferred Income Bonds, if any, the Valuation Dates for such Bonds, the Appreciated Value on each such Valuation Date and the Interest Commencement Date for such Bonds;
- (h) If any Series 2014 Bonds are Capital Appreciation Bonds or Deferred Income Bonds, the manner in which and the period during which principal and interest shall be deemed to accrue on such Series 2014 Bonds;

- (i) If any Series 2014 Bonds are Option Bonds, (1) provisions regarding tender for purchase or redemption thereof and payment of the purchase or Redemption Price thereof; and (2) provisions regarding the appointment of a Remarketing Agent;
- (j) The denomination or denominations of and the manner of numbering the Series 2014 Bonds;
- (k) The Series 2014 Bonds which are Book Entry Bonds, if any, and the Depository therefor;
- (l) The Paying Agent or Paying Agents for the Series 2014 Bonds and the place or places of payment of the principal, Sinking Fund Installments, if any, or Redemption Price of and interest on the Series 2014 Bonds;
- (m) The Redemption Price or Redemption Prices, if any, and, subject to Article V of the Resolution, the redemption terms, if any, for the Series 2014 Bonds; provided, however, that the Redemption Price of Series 2014 Bonds at the election or direction of the Board shall not be greater than one hundred three percent (103%) of the principal amount of the Series 2014 Bonds to be redeemed, plus accrued interest thereon to the date of redemption; provided that the Redemption Price for any redemption of Taxable Bonds may be such higher price as may be appropriate for the sale of such Taxable Bonds;
- (n) The form of the Series 2014 Bonds and the form of the Paying Agent's certificate of authentication thereon;
- (o) Whether the Series 2014 Bonds shall be entitled to the benefit of the Common Reserve Account, and if so entitled, the amount of the Common Reserve Account Requirement and the method of funding or providing for such Common Reserve Account Requirement, the terms and provisions and credit quality of any Support Facility to be deposited therein, and any provisions with respect to subaccounts therein, if applicable;
- (p) Any provisions with respect to funds and accounts and subaccounts therein, if applicable, and the Revenues and application thereof, as provided in Article VI of the Resolution;
- (q) If the Series 2014 Bonds shall not be entitled to the benefit of the Common Reserve Account, whether a Series Reserve Account will be established for any of the Series 2014 Bonds, and if so determined to be established, the amount of the Series Reserve Account Requirement and the method of funding or providing for such Series Reserve Account Requirement, the terms and provisions and credit quality of any Support Facility to be deposited therein, and any provisions with respect to subaccounts therein, if applicable;

- (r) Which Outstanding Bonds shall be refunded from proceeds of the Series 2014 Bonds and other available moneys, and directions for the application of the proceeds of the Series 2014 Bonds, including directions with respect to the refunding of such Outstanding Bonds;
- (s) Whether a Support Facility shall be obtained or an Interest Rate Exchange Agreement shall be entered into with respect to the Series 2014 Bonds, and if any Series 2014 Bonds are Option Bonds, (i) the appointment of a Support Facility Provider which shall supply a Support Facility with respect to such Series 2014 Bonds; and (ii) provisions for the establishment of separate accounts in which amounts drawn under a Support Facility for the Series 2014 Bonds are to be deposited;
- (t) Directions for the application of the proceeds of the Series 2014 Bonds, including the interest on any Series 2014 Bonds to be capitalized from the proceeds thereof, if any, and the date or dates to which such capitalized interest shall accrue;
- (u) If any of the Series 2014 Bonds shall be auction rate securities, the provisions relating to such auction rate securities;
- (v) Which Series 2014 Bonds are to be issued as Tax-exempt Bonds and which, if any, are to be issued as Taxable Bonds; and
- (w) Any other provisions deemed advisable by an Authorized Officer of the Board, not in conflict with the provisions hereof or of the Resolution.

(2) Such Authorized Officer shall execute one or more Series Certificates evidencing determinations or other actions taken pursuant to the authority granted herein or in the Resolution and any such Series Certificate shall be conclusive evidence of the action or determination of such Authorized Officer as to the matters stated therein.

(3) All Series 2014 Bonds of like Series, maturity and tenor issued pursuant to this Series 2014 Resolution shall be identical in all respects, except as to denominations and numbers.

Section 2.04. Authority to Enter into Agreements. (1) In the event any of the Series 2014 Bonds are sold at private sale as provided in clause (a) of subsection (1) of Section 2.03, any Authorized Officer of the Board is hereby authorized to execute one or more Bond Purchase Contracts in the name and on behalf of the Board in substantially the form as presented to and on file with the Board, which form is hereby approved, with such changes, insertions and omissions as may be approved by such Authorized Officer, such execution being conclusive evidence of such approval.

(2) The form of the Continuing Disclosure Certificate, as presented to and on file with the Board, is hereby approved. Any Authorized Officer of the Board is hereby authorized to execute one or more Continuing Disclosure Certificates substantially in such form, with such changes, insertions and omissions as may be approved by such Authorized Officer, such execution being conclusive evidence of such approval.

(3) The form of the Escrow Agreement by and between the Board and a financial institution as trustee thereunder, as presented to and on file with the Board, is hereby approved. Any Authorized Officer of the Board is hereby authorized to select a qualified financial institution to serve as trustee and to execute the Escrow Agreement in the name and on behalf of the Board substantially in such form, with such changes, insertions and omissions as may be approved by such Authorized Officer, such execution being conclusive evidence of such approval.

Section 2.05. *Official Statements.* (1) The form of Preliminary Official Statement, as presented to and on file with the Board, is hereby approved. The distribution in connection with the offering and sale of the Series 2014 Bonds of one or more Preliminary Official Statements in such form, with such changes, insertions and omissions as an Authorized Officer of the Board deems advisable, is hereby authorized.

(2) Any Authorized Officer of the Board is hereby authorized to execute and deliver, in the name and on behalf of the Board, one or more final Official Statements in substantially the form of the Preliminary Official Statement, with such changes, insertions and omissions as such Authorized Officer deems advisable, and to permit the distribution of said Official Statement or Official Statements in connection with the offering and sale of the Series 2014 Bonds.

Section 2.06. *Execution of Documents.* Any Authorized Officer of the Board is hereby authorized to execute and deliver, in the name and on behalf of the Board, any and all documents and instruments, and to do and cause to be done any and all acts and things, said Authorized Officer deems necessary or advisable in connection with the offering, sale and issuance of the Series 2014 Bonds and to carry out the transactions contemplated by this Series 2014 Resolution.

ARTICLE III

EXECUTION AND AUTHENTICATION OF THE SERIES 2014 BONDS

Section 3.01. *Execution and Authentication of Series 2014 Bonds.* (1) Pursuant to the provisions of Sections 4.02 and 4.03 of the Resolution, the Chairman or Vice-Chairman of the Board is hereby authorized and directed to execute by his or her manual or facsimile signature the Series 2014 Bonds in the name of the Board; the Principal Executive, Finance Division, as the chief financial officer, is hereby authorized and directed to countersign by his or her manual or facsimile signature the Series 2014 Bonds, and the seal of the Board shall be affixed or a facsimile of such seal shall be imprinted on the Series 2014 Bonds.

(2) If a Paying Agent for the Series 2014 Bonds is appointed as provided in clause (1) of subsection (1) of Section 2.03, such Paying Agent is hereby authorized to authenticate by manual signature the Series 2014 Bonds, and deliver the same to or upon the order of the Board, in such amounts and at such times as such Paying Agent shall be directed in writing by an Authorized Officer.

ARTICLE IV

APPLICATION OF PROCEEDS

Section 4.01. *Application of Proceeds and Deposit of Moneys.* On the date of delivery of the Series 2014 Bonds, the proceeds of the sale of the Series 2014 Bonds shall be applied in accordance with the written direction of any Authorized Officer given pursuant to Section 2.03(l)(r) of this Series 2014 Resolution.

ARTICLE V

SPECIAL COVENANTS

Section 5.01. *Tax Status.* The interest on the Series 2014 Bonds that are Tax-exempt Bonds is intended to be excluded from gross income for purposes of federal income taxation. In order to maintain such exclusion, the Board affirms that the tax covenants made in Section 8.13 of the Resolution shall apply to the Series 2014 Bonds that are Tax-exempt Bonds. In furtherance of the foregoing, the Board shall comply with the provisions of the Tax Certificate executed by any Authorized Officer of the Board in connection with the applicable Series 2014 Bonds that are Tax-exempt Bonds.

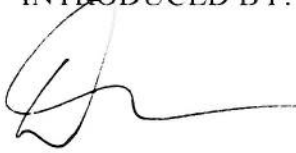
Section 5.01. *Survival of Covenant.* The obligation of the Board to comply with the provisions of the Tax Certificate with respect to any required payments to the Department of the Treasury of the United States of America shall remain in full force and effect so long as the Board shall be required by the Code to make such payments, notwithstanding that the Series 2014 Bonds that are Tax-Exempt Bonds are no longer Outstanding.

ARTICLE VI

MISCELLANEOUS

Section 6.01. *Effectiveness.* The Series 2014 Resolution shall become effective immediately upon its adoption.

INTRODUCED BY:



DUANE R. MIYASHIRO, CHAIR

DATE OF INTRODUCTION: OCTOBER 27, 2014

RESOLUTION NO. 849, 2014, AUTHORIZING UP TO \$160,000,000 PRINCIPAL AMOUNT OF SERIES 2014 BONDS ADOPTED ON OCTOBER 27, 2014			
	AYE	NO	COMMENT
DUANE R. MIYASHIRO	X		
ADAM C. WONG	X		
MAHEALANI CYPHER			ABSENT
THERESIA C. MCMURDO			ABSENT
DAVID C. HULIHEE			ABSENT
ROSS S. SASAMURA	X		
FORD N. FUCHIGAMI	X		

THE ABOVE AND FOREGOING RESOLUTION IS HEREBY APPROVED AS TO
FORM AND LEGALITY THIS OCTOBER 27, 2014.



DEPUTY CORPORATION COUNSEL
CITY AND COUNTY OF HONOLULU

"October 27, 2014

**HAIKU STAIRS
UPDATE**

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

Chair and Members:

Subject: Haiku Stairs Update

In June 2014, Councilmember Ikaika Anderson brought together landowners, residents and community and civic leaders to form the Haiku Stairs Working Group. The group was given ninety (90) days to discuss issues related to Haiku Stairs and develop a recommendation for the disposition of Haiku Stairs.

Starting on July 23, 2014, the group met weekly to examine the history of the use of Haiku Stairs; hear opinions on what should be done with Haiku Stairs; and discuss and debate the various options available (maintaining the "status quo," removal and managed access/use), the known and potential access points and impacts on residents, landowners, and other stakeholders. On October 6, 2014, the group submitted their final report to Councilmember Anderson and the Mayor. The group's recommendation was to re-open Haiku Stairs to the public under a managed access/use plan. The Haiku Stairs Working Group final report is attached for your reference.

At this time, we are investigating the managed access/use plan, as well as two other options: (1) transferring the property on which Haiku Stairs is located to a more appropriate government agency or entity and (2) removing Haiku Stairs. Once we have completed our investigation of these options, we will present our findings to the Board.

Respectfully submitted,

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

Attachment"

The foregoing was for information only.

DISCUSSION:

Mike Matsuo, head of the Land Division and a member of the Haiku Stairs Working Group (Group), gave the Board a synopsis of discussions that took place with the Group. He explained that the Group consisted of representatives of landowners, including the State Department of Transportation (DOT), State Department of Hawaiian Home Lands (DHHL), Kamehameha Schools (KS), the BWS, KS tenants, and also the two residents who live near the main access points to Haiku Stairs (HS). The

task of the Group was to determine if HS should be removed, opened or remain status quo.

Mr. Matsuo pointed out the numerous complaints received from the residents about inconsiderate hikers who create problems and safety concerns for them. After discussions, the Group realized that HS would have to either be opened or removed; it could not remain status quo. All of the landowners shared the same concerns about liability because no matter where the access point to HS may be, the only way to get there is to cross private property, and also the concern that opening HS did not align with any of their missions. If HS were opened, they would not only need a managed access/use plan but they would need to move the access routes out of residential subdivisions. The Group looked at having the route through either Windward Community College (WCC) or Hope Chapel. Crossing through WCC would move the access route out of the residential neighborhoods, but there would still be challenges with managed access/use since hikers would also have to cross through state land – the State Hospital, DOT and DHHL lands. A vendor or organization would have to be willing to take up this managed access/use plan that would have a lot requirements placed on it such as how many hikers would be allowed on HS at any one time, charging fees, putting up signage, security measures, fencing, having 24 hour roving and stationary security guards, having an emergency action plan in case of accidents, and also having a mechanism for landowners and residents to bring up concerns and have them acted upon. Originally when the Group approached the Chancellor of WCC, he said it would be possible to access HS via WCC, however, he pulled back on his position. As far as Hope Chapel, the City had explored this location many years ago and did have an agreement; however it fell apart because the City was not able to put forth a finalized plan. The Group has not been able to get in touch with Hope Chapel. At this point, the Group is uncertain of both locations unless there's a detailed plan in place.

Mr. Lau recapped that there are three options in place. One is to have a managed access with BWS retaining ownership of HS; the other is to transfer the property to another government entity that has the expertise in managing trails, parks and recreational facilities; and the last is to remove HS. Mr. Lau stated that he would be meeting with Councilmember Anderson and the Mayor to discuss these different options.

Board Member Fuchigami asked if any government agencies inquired about taking on the property. Mr. Lau replied saying that none have inquired, but he's been asking other agencies like the Department of Land and Natural Resources (DLNR) and the Department of Parks and Recreation (DPR) and both have declined. Ms. McMurdo inquired if both agencies were part of the Group, and Mr. Matsuo replied that they were not. He added that when the Group initially met with Councilmember Anderson in late June, they suggested other entities be a part of the Group, but Mr. Matsuo was not sure what became of that. Mr. Fuchigami stated that until the liability issue is settled, there wouldn't be any government agency that would want to take on HS. Mr. Wong questioned if DLNR doesn't already have exiting liability based on its trail system. Mr. Matsuo replied that DLNR has always claimed that because HS is a man-made structure, it doesn't fall under the Na Ala

Hele trails program. Ms. McMurdo commented that all other trails are also man-made and are all maintained. She feels that DLNR and DPR seem to be the appropriate agencies to take on HS because it falls under their missions.

Mr. Miyashiro inquired about the cost of police security. Mr. Lau responded that the security guard contract is somewhere around \$150,000 - \$200,000 a year. Mr. Matsuo informed the Board that when they switched the guard service contract to a 24/7 contract on September 1, 2014, they initially saw a decrease in numbers of people trying to go up HS. Police officers have also been sent to the area and have since issued about 133 citations and made three arrests. However, the numbers are slowly increasing again. Mr. Matsuo added that in June of last year, the count was up to about 1000 people trying to go up or down the stairs, so the residents are happy that the numbers have gone down.

Mr. Matsuo replied to Ms. McMurdo's inquiries stating that the legislators in that area are Representative Ken Ito and Senator Jill Tokuda who are both for the removal of HS. Mr. Wong asked if there is a cost to removing HS. Mr. Matsuo replied that the city estimate is about \$4 - \$5 million for total removal. Mr. Lau added that it would probably require an environmental impact statement on the removal. Mr. Lau replied to Mr. Wong's inquiring saying that HS is not registered as a historical site.

Mr. Miyashiro asked if there were options to transfer HS to a non-government agency. Mr. Lau replied that that would be an option, however, it would mean selling the land and cautioned about selling government land. He stated that the cleanest would be to transfer the land to another government agency. Mr. Wong inquired about the potential of a long-term lease. Mr. Lau replied that there would still be the issue of how to insulate BWS from liability and to place the burden on the lessee. It would also need council approval if the lease is over five years.

Mr. Miyashiro asked if the Department is currently working on a policy and procedure on the transfer of property. Mr. Lau replied that they are and will get that in place before any type of action is taken.

Ms. McMurdo inquired if BWS is protected by insurance and what the cost is because if BWS transfers HS to a non-profit organization that would manage it, then BWS would still be covered by insurance. Mr. Lau acknowledged if HS went to a non-profit or non-government entity, then the insurance limits would have to be high. Ms. McMurdo gave an example of how Campbell Estate's Waianae Range was managed by the Nature Conservancy, a non-profit organization.

October 6, 2014

The Honorable Ikaika Anderson
Councilmember, District 3
City Council
City and County of Honolulu
Honolulu Hale
Honolulu, Hawaii 96813

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CITY COUNCIL
HONOLULU, HAWAII

Dear Councilmember Anderson:

Subject: Ha'ikū Stairs Working Group Final Report

Enclosed for your review and use is the final report of the Ha'ikū Stairs Working Group, which presents the group's findings and recommendation for the Ha'ikū Stairs.

The Ha'ikū Stairs Working Group has been meeting every Wednesday since July 23, 2014. Meeting discussions covered a number of topics, such as what to do with the Ha'ikū Stairs, the various access points (actual and potential) and what would be the best option that would be mutually acceptable to the residents, landowners and stakeholders.

The members of the group are hopeful that this report will provide a means to finally resolving the disposition of the Ha'ikū Stairs.

Mahalo and Aloha,

The Members of the Ha'ikū Stairs Working Group

- Vernon Ansdell, Friends of Ha'ikū Stairs
- Rick Barboza, Hui Kū Maoli Ola
- Shelly Carreira, Department of Hawaiian Home Lands
- Mahealani Cypher, Ko'olau Foundation and Ko'olaupoko Hawaiian Civic Club
- Rae Leong, Resident of Hokulele subdivision
- Michael Matsuo, Board of Water Supply
- Melissa Miranda-Johnson, Mayor's Office
- Mo Radke, Kāne'ohe Neighborhood Board
- David J. Rodriguez, Department of Transportation
- Ken Rose, Resident of Ha'ikū Village subdivision
- Kapaliku Schirman, Papahana Kūaola
- Holly Sevier, Kāne'ohe Neighborhood Board, Resident of Ha'ikū Village subdivision
- Ulalia Woodside, Kamehameha Schools

Enclosure

Cc: Mayor Kirk Caldwell



HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

October 6, 2014

HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

I. PURPOSE OF HA'IKŪ STAIRS WORKING GROUP

On June 24, 2014, Honolulu City Councilmember Ikaika Anderson assembled a small group of local community and civic leaders, residents and landowners to discuss issues relating directly to the Ha'ikū Stairs and to develop a recommendation for their future use and/or disposition.

II. SPECIFIC REQUEST

The Ha'ikū Stairs Working Group (HSWG) was tasked with meeting for ninety (90) days to determine disposition of the Ha'ikū Stairs by analyzing and discussing the following questions:

- A. Landowners will allow access over their properties
- B. Landowners will not allow access over their properties
- C. No consensus from landowners

To determine the following results:

- A. Maintain the "status quo"/Do Nothing
- B. Remove the Ha'ikū Stairs
- C. Reopen the Ha'ikū Stairs to the public

III. WORKING GROUP PROCESS

A. Process

The HSWG met every Wednesday and did the following:

1. All HSWG members expressed what they felt about the Ha'ikū Stairs, what their concerns were, what opportunities the Ha'ikū Stairs presented and what it would take to re-open the Ha'ikū Stairs for public use.
2. Representatives from the Coast Guard, Honolulu Police Department (HPD) and Honolulu Fire Department (HFD) were invited to share their history with the Ha'ikū Stairs, what challenges they face or faced and their position on the Ha'ikū Stairs. The former commanding officer of the Omega Station, Norman Cox and HPD Officer Anderson attended subsequent meetings to provide their experiences with the Ha'ikū Stairs. HFD did not send a representative as their position is to keep the Ha'ikū Stairs closed.
3. All group members were allowed to present their vision for both the Ha'ikū Stairs and Ha'ikū Valley as applicable. Landowners and residents

HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

were generally in favor of removing the Ha'ikū Stairs, while other group members saw benefits to re-opening the Ha'ikū Stairs.

4. The pros and cons for the removal of the Ha'ikū Stairs, managed access/use of the Ha'ikū Stairs and "do nothing" or maintain the "status quo" were identified. Also discussed was the possibility of a change in ownership of the land on which the Ha'ikū Stairs are located.
5. The pros and cons for ten (10) access points to the Ha'ikū Stairs were identified. The top three likely access points were selected and group members volunteered to approach the landowners to determine if they would allow access.
6. The requirements for managed access were identified and discussed. The cost of insurance required for managed access was researched. But, there were questions whether or not the quote obtained for the necessary insurance was reliable.

Appendix A presents notes from the HSWG meetings, as well as the pros and cons for the removal of the Ha'ikū Stairs, managed access/use of Ha'ikū Stairs and maintaining the "status quo" or doing nothing. Appendix B presents the pros and cons of the various access points to the Ha'ikū Stairs.

B. Maintaining the "Status Quo"

The group was unanimous in that maintaining the "status quo" and doing nothing was not an option. Although the start of 24 hours a day and 7 days a week guard service by the Board of Water Supply (BWS) in September significantly reduced the number of trespassers, residents continue to experience problems. Also, accessing private property without the permission of the landowner is trespassing and illegal.

While several group members advocated for removing the Ha'ikū Stairs as a way to resolve the issue, they agreed, with reservations and conditions, to continue with the process to determine if another option to re-open the Ha'ikū Stairs, such as managed access/use, could be implemented.

C. Re-Opening Ha'ikū Stairs

The general consensus, with reservations and conditions, was that the best way to re-open the Ha'ikū Stairs would be through a managed access/use plan.

After reviewing the pros and cons of the various access points to the Ha'ikū Stairs, the group decided that the top 3 likely access points to the Ha'ikū Stairs, in order of preference, would be:

HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

1. Windward Community College/State Hospital
2. Hope Chapel
3. Privately owned portions of "Old Ha'ikū Road" (there was some opposition on this choice by group members)

A member of the group spoke with the chancellor of Windward Community College (WCC). The WCC chancellor was open to discussing allowing access to the Ha'ikū Stairs through the WCC campus. But, no on-campus parking could be used by hikers (on campus parking is full). Instead, hikers would have to be shuttled to and from the campus, possibly from a staging area at Kāne'ohe District Park (KDP). Also, any trails from the WCC campus to the Department of Transportation (DOT) H-3 service road would have to be created and maintained by the managed access/use plan provider. People familiar with the area believe that there is a feasible route from the WCC campus to the DOT H-3 service road.

No response was received from the State Department of Health.

It should be noted that the City Department of Parks and Recreation informally indicated that it would have issues and concerns with the use of KDP as part of a managed access/use plan, because of the possible commercial nature of such a plan. KDP is already heavily used and its parking facilities are usually overloaded especially during the soccer season. Any commercial or non-profit use of KDP may require review and approval by the City Council.

No contact was made with Hope Chapel.

Kamehameha Schools (KS) indicated that they do not allow general public access across its lands, or access without permission and/or an agreement. While KS is willing to consider an access agreement across a portion of "Old Ha'ikū Road" owned by KS that extends mauka from the Kuneki/Makena spur for their tenants, Department of Hawaiian Home Lands (DHHL), BWS or other landowner's activities/uses, they will not consider an access agreement for that portion of "Old Ha'ikū Road" that extends behind He'eia Preschool and within the area leased to their tenants Papahana Kūaola and Hui Kū Maoli Ola.

The group decided that a managed access/use plan would have to include the following:

1. Officially mapped and possibly contained trails and access-ways to the Ha'ikū Stairs located outside and away from residential areas.
2. Planned hiking periods and a set number of hikers that are allowed during each hiking period. Hiking periods should be set so that it minimizes traffic impacts on neighborhoods and residents.

HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

3. **Appropriate instructional, educational/informational, cultural and hazard warning signage at the trailhead, along the Ha'ikū Stairs and at the end of the Ha'ikū Stairs. Several years ago, when the City was planning to reopen Ha'ikū Stairs to the public, they commissioned a study to design the appropriate types of signs that would be required to ensure the safety of hikers and educate them on the natural environment in and around the Ha'ikū Stairs.**
4. **General and vehicular liability insurance that protects landowners from any and all liabilities (personal injury, damage to personal property, death, etc.) associated with the use of the Ha'ikū Stairs.**
5. **Facilities (parking, restroom, concession, trash receptacles, rest area, etc.) for hikers.**
6. **A communications plan via all media platforms (publications, social media, internet, etc.) that would inform potential hikers of the rules and regulations for the managed access/use plan, where the authorized access point(s) would be, etc.**
7. **Staff to escort hikers from the staging area to the base and/or up and down the Ha'ikū Stairs; to educate hikers on the cultural resources and natural environment in and around the Ha'ikū Stairs, to provide a safety briefing to hikers and to operate and maintain any hiker facilities.**
8. **An emergency action plan detailing what to do in case of medical and other emergencies before, during and after hikes.**
9. **Roving and stationery 24-hours a day and 7 days a week security staff with authority to enforce the managed access/use plan, i.e. have the authority and ability to cite and arrest people who do not follow the rules and regulations of the managed access/use plan. It should be noted that although the Coast Guard allowed access through their Omega Station to the Ha'ikū Stairs, they still experienced problems with people circumventing and/or ignoring their procedures.**
10. **Security measures (fencing and cameras) to help monitor the property to prevent trespassing and criminal activities from occurring.**
11. **The necessary permits and approvals from landowners and government agencies. Legislation may also be required.**
12. **A plan for the operation and maintenance of the Ha'ikū Stairs, fencing and other ancillary infrastructure/facilities.**

HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

13. A business plan indicating if it's a non-profit or for-profit operation, what fees will be charged, how revenues will be spent, etc. A business plan for managed access to the Ha'ikū Stairs was previously prepared by Mr. Brinton Reed. It is not known, however, what reasons Mr. Reed had to prepare his plan, or if his work was commissioned by a government agency or private organization.
14. Mechanisms through which residents and landowners' complaints and concerns with the managed access/use plan can be addressed and for recourse if these complaints and concerns are not addressed.

Prior to the implementation of any managed access/use plan, the following other actions would most likely be required:

1. Consult with DOT and Federal Highways Administration (FHWA). DOT would be concerned with how the use of its H-3 service road would impact its MS4 storm drainage permit. Any use that includes a new connection to the drainage system or alters drainage patterns would have to be approved by DOT. In addition, DOT would require the use of Best Management Practices to control runoff and erosion. DOT is not the final authority; FHWA would also have to be consulted and give approval for the use of the H-3 service road.
2. Prepare an Environmental Impact Statement (EIS) or Environmental Assessment (EA) to not only assess the environmental impacts of operating the Ha'ikū Stairs, but also set the capacity of the Ha'ikū Stairs at any one time.
3. Evaluate the structural condition of the Ha'ikū Stairs and construct any improvements to repair any deficiencies.
4. Replace any existing signs at other known access points that mention Ha'ikū Stairs with generic "No Trespassing" signs so as to not advertise that the Ha'ikū Stairs can be accessed from those locations. Also, install a sign at the interface between Ha'ikū Stairs and the Moanalua Valley trail to indicate that access to Ha'ikū Stairs is only allowed via the managed access/use plan. The State Department of Land and Natural Resources can also be asked to alter its trail program literature to indicate that the Ha'ikū Stairs is open only through the approved managed access/use plan.
5. Install and maintain fencing and security measures at other access points to ensure that access occurs only where authorized.
6. Obtain consents of entry, a DOT Access Document and possibly easements to ensure legal access over, across and through private landowners' properties. It should be noted if the managed access/use plan

HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

is a for-profit venture, landowners may charge a fee for the use of their properties or require payment of a percentage of any profits/revenues generated from the managed access/use plan.

A plan for managed access/use of Ha'ikū Stairs faces many challenges. There's no guarantee that any plan provider can comply with all the requirements identified above.

Another issue that was discussed was the option of changing landowners. Throughout the course of the group meetings, BWS, KS and DHHL mentioned that the recreational use of Ha'ikū Stairs is not in alignment with their respective missions. A change in land ownership could not only relieve existing landowners from liability, but also align the recreational use of the Ha'ikū Stairs with the new landowner's specific mission. BWS, pending approval by its Board and the City Council, is open to considering the sale of its lands on which the Ha'ikū Stairs are located. Funding for the purchase of the BWS/City lands might be available via the State Legacy Land fund of the City's Clean Water/Natural Lands fund. Another route could be the creation of a cultural preserve or park, which has been tried several times in the past. Such a venture would ensure a 24 hours per day, 7 days a week presence in the valley that could help protect residents and landowners from trespassing, criminal activities, vandalism and other nuisances. The only drawback is that changing landownership can be a very long and arduous process and require legislation and political will.

D. Removing Ha'ikū Stairs

To remove the stairs, BWS anticipates having to:

1. Prepare an EIS or EA to evaluate the impact removal would have on the natural environment, on cultural resources in, around and near the Ha'ikū Stairs, and on the community (not just affected residential neighborhoods, but the general public as well). Because removal of the Ha'ikū Stairs would be controversial and face significant opposition, an EIS, and not an EA, may be required.
2. Perform a preliminary engineering and basis of design study to address the removal process; construction access; disposal of the stairs infrastructure; environmental controls, restoration of the areas, permitting, etc. This would help BWS create the scope of work for the safe and complete removal of the Ha'ikū Stairs.
3. Obtain a construction permit from DOT for any removal work.

Conservative cost estimates for an EIS and the preliminary engineering and basis of design study are \$500,000 and \$200,000, respectively. Construction costs to remove the Ha'ikū Stairs obtained from the City are estimates to be

HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

approximately \$3 to \$4 million. Thus, the combined cost to remove the Ha'ikū Stairs is estimated to be approximately \$4 to \$5 million.

IV. CONCLUSIONS/RECOMMENDATIONS

A. Utilize WCC to Access Ha'ikū Stairs.

1. The HSWG recommends the most feasible way to open Ha'ikū Stairs is through managed access.
2. Access through WCC became the HSWG's primary choice and received a consensus as the most feasible access point that "may work." Many HSWG members understand that utilizing WCC requires approval from public landowners.

B. WCC Stipulations to Access Ha'ikū Stairs.

A HSWG member spoke with the Chancellor of WCC. The WCC chancellor indicated that access through the WCC campus may be possible if the following stipulations are met.

1. Potential hikers must park at KDP. Hikers may not park within the WCC campus.
2. Hikers cannot be allowed to interfere with WCC students, staff, faculty or operations. Thus, hikers would have to be escorted through the WCC campus going to and returning from the trail that leads from the WCC campus to the Ha'ikū Stairs. The WCC chancellor believed this was the best means to prevent disruption to the WCC campus.
3. Any potential entity managing hiker access must take care of the vegetation at the various WCC campus access points.

C. Comments from HSWG Members

1. BWS. The BWS representative stated that BWS would have to be indemnified from any liability from hikers accessing the Ha'ikū Stairs on BWS land. The representative added that an appropriate, favorable EIS would likely have to be completed under this option.
2. DHHL. The DHHL representative also stated that DHHL would have to be indemnified from any liability from hikers accessing the Ha'ikū Stairs by traveling through DHHL property. The DHHL representative added that they would expect sharing profits from any managed access venture to support DHHL's core mission of homesteading and agriculture (see Appendix C).

HA'IKŪ STAIRS WORKING GROUP FINAL REPORT

3. **DOT.** The DOT representative stated that any managed access venture or contractor removing the Ha'ikū Stairs would have to submit a request for a permit to conduct any activities near and/or below the H-3. The permit would first go through the DOT and then the FHWA for final approval. The DOT representative added DOT would assist with the permit process only, not advocate any particular course of action.
4. **Other Landowner/Tenant Comments.** Representatives from KS, Papahāna Kūaola and Hui Kū Maoli Ola indicated that they were in favor of managed access utilizing the WCC campus. Access through the WCC campus would not impact their respective land areas or detract from their core missions.
5. **Friends of Ha'ikū Stairs (FHS).** The FHS representative and HSWG members supporting FHS believed managed access through the WCC campus was a feasible solution.
6. **Residents.**
 - a. HSWG members representing residential areas at the Kuneki Street and Puoni Place access points believe that access through the WCC campus is the only feasible option. The WCC campus access is the only option that does not go through a residential community area or requires vast funding to modify landscapes.
 - b. Adequate security fencing and signage should be installed at all unauthorized access points; e.g. Kuneki Street, Puoni Place, "Old Ha'ikū Road," Puulau Place/Kuneki Way drainage channel, etc.; to prevent hikers who decide not to use or bypass the managed access route through the WCC campus, from accessing the Ha'ikū Stairs by trespassing on residents' properties. Securing the unauthorized access points should not be an afterthought or a planning item added after the WCC campus access route is established. Instead, securing the unauthorized access points should be a prerequisite of any plans to utilize the WCC campus.

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

DATE	SUBJECT MATTER	PROS	CONS	OTHER COMMENTS	ATTENDANCE
8/6/2014	ATTENDANCE			Woodside asked that a representative of Hui Kū Maoli Oia (Rick Barboza) be notified of meetings and urged to attend. It was also suggested that a rep of DOT be invited to attend.	Rae Leong (Ha'ikū Village resident) Ken Rose (Ha'ikū Village resident) Uiala Woodside (Kamehameha Schools) Holly Sevier (HV resident & Kāne'ohe NB rep for Ha'ikū Village) Vernon Ansdell (Friends of Ha'ikū Stairs) Mo Radtke (Kāne'ohe NB chair of HS task force) Mahealani Cypher (Ko'olau Foundation & Ko'olauoko HCC)
	DISCUSSION OF OPTIONS			1) Tear down the stairs 2) Do nothing (status quo) 3) Landowners agree to "managed access" if conditions are satisfied 4) Land ownership changes 5) Managed access	
	DISCUSSION OF PROS & CONS				
	TEAR DOWN STAIRS (Option #1)	a) Reduced adverse impact on residents near access points b) Reduced liability exposure c) Reduced low-level crime, vandalism impact on general area d) No maintenance or security cost e) Fewer rescues would be needed f) Reduced environmental impact on area g) Reduced access to Wao Akua (restores sanctity of culturally important areas)	a) Loss of prime hiking opportunity b) Cost of removal c) Loss of structure eligible for listing on National Register of Historic Places d) Loss of easy access for scientific & cultural purposes & research e) Loss of potential revenue source f) Loss of physical training site g) Adverse environmental impact from removal activity		
	DO-NOTHING (STATUS QUO) (Option #2)	a) It's the "easy" thing to do. b) People who want to hike the stairs will continue to do so	a) Land remains relatively unsupervised b) Criminal activity continues c) Stairs will deteriorate in time d) Increase in liability exposure for owner of stairs, other landowners e) Encourages lawlessness and disrespect, fosters tension in the community f) Threat to safety of hikers going at night		

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

	<p>LANDOWNERS ALLOW MANAGED ACCESS (Option 3)*</p>	<p>a) Legal, safe, daylight hiking</p> <p>b) All of the "cons" from Option #1</p> <ol style="list-style-type: none"> i. Prime hiking opportunity available for public ii. Potential savings with no removal costs iii. Potential to list stairs on National Register iv. Easy access for scientific and cultural purposes & research v. Potential revenue source to cover cost of 24-hour security and enforcement vi. Availability of potential physical training site vii. Potential educational opportunities viii. No environmental impacts from removal activity <p>c) May mitigate adverse impacts to residents near access points</p> <p>d) Possible increase in property values if area is secured and improved</p> <p>e) Safer access for the community, including nearby residents</p>	<p>a) Managing access remains a challenge, may not resolve several issues</p> <p>b) Assuming some continue to use current access routes – trespassing "muscle memory" for those who know no different access points</p> <p>c) Does not remove safety issue for community (unless there is increased security / enforcement)</p> <p>d) Potential adverse impact to neighboring properties</p> <p>e) Compatibility of high traffic public use with neighboring property issues still remain.</p>	<p>*Assuming liability for affected landowners is indemnified by whoever assumes management / ownership of stairs, access, parking, etc.</p>	
	<p>LAND OWNERSHIP CHANGES (Discussion)</p>			<p>Relief from liability for current landowners, i.e., BWS, DHHL, KS, DOT</p>	
				<p>Recreational stair use can be an aligned use to the mission of a different landowner</p>	
				<p>Funding to acquire BWS land (and other lands?) could come from State Legacy Land fund or City's Clean Water/Natural Lands fund</p>	
				<p>Land exchange possible between DHHL & OHA</p>	

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

				Good will can be derived from a comprehensive plan	
				Will take "political will" for Mayor and Governor to agree to a multi-part plan for conversion of land ownership and development of a cultural preserve or park to ensure a 24-hour presence in the valley, protect residents and landowners from trespassers, vandals and others who cause problems	
8/13/2014	Review of pros/cons from notes of Aug. 6, 2014, meeting			Option #3, need to add to assumptions regarding "Managed Access" Option #2, status quo – should be omitted since all agree this is not acceptable Vandalism not tied only to hikers (could be chronics, copper thieves, etc.)	Ken Rose (Ha'iku Village resident) Rae Leong (Ha'iku Village resident) Ulalia Woodside (Kamehameha Schools) Holly Sevier (Kāne'ohe NB rep for Ha'iku Village) Vernon Ansdell (Friends of Ha'iku Stairs) Melissa Miranda-Johnson (Mayor's office rep) Kapaliu Schirman (Papahele Kūaola) Rick Barboza (Hui Kū Maoli Oia) Shelly Carreira (DHHL) Mike Matsuo (BWS) Mo Radke (Kāne'ohe NB chair-Ha'iku Stairs TF) Mahealani Cypher (Ko'olea Foundation and Ko'oleaupoko Hawaiian Civic club)
	ACCESS POINT: HA'IKU STREAM		1. Unsafe trekking 2. Liability 3. Environmental impact 4. Disruption of business activities 5. Parking on residential streets 6. No toilet facilities, and trash problems 7. Potential for confrontations with landowners 8. Trespassing	Homework: come up w/ "Pro" arguments for why some access points may be better than others	

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

	ACCESS POINT: "OLD HA'IKU ROAD"		<ul style="list-style-type: none"> 1. Liability 2. Disruption of business activities 3. Parking on residential streets 4. No toilet facilities, and trash problems 5. Potential for confrontations with landowners 6. Trespassing 7. Risk to preschool children 8. Road is a liability / incur maintenance cost 9. Property disputes extend into road (may be costly to resolve) 		
	ACCESS POINT: KUNEKI STREET ("Old Ha'iku Road" main gate)		<ul style="list-style-type: none"> 1. Liability 2. Parking on residential streets 3. No toilet facilities, and trash problems 4. Potential for confrontations with landowners 5. Trespassing 		
	ACCESS POINT: LOU'I STREET		<ul style="list-style-type: none"> 1. Liability 2. Parking on residential streets 3. No toilet facilities, and trash problems 4. Potential for confrontations with landowners 5. Trespassing 		
	ACCESS POINT: PUOMI PLACE		<ul style="list-style-type: none"> 1. Liability 2. Parking on residential streets 3. No toilet facilities, and trash problems 4. Potential for confrontations with landowners 5. Trespassing 		
	ACCESS POINT: PUULAU PLACE/KUNEKI WAY DRAINAGE CHANNEL		<ul style="list-style-type: none"> 1. Unsafe trekking 2. Liability 3. No toilet facilities, and trash problems 4. Trespassing 		

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

	ACCESS POINT: HOPE CHAPEL		<ol style="list-style-type: none"> 1. Liability 2. No toilet facilities, and trash problems 3. Potential for confrontations with landowners 4. Trespassing 		
	ACCESS POINT: WINDWARD COMMUNITY COLLEGE / DOH/DOY		<ol style="list-style-type: none"> 1. Liability 2. No toilet facilities, and trash problems 3. Trespassing 		
	ACCESS POINT: MOANALUA VALLEY		<ol style="list-style-type: none"> 1. Unsafe trekking 2. Liability 3. No toilet facilities, and trash problems 4. Potential for confrontations with landowners 5. Trespassing 		
8/20/2014	Discussion on the Pro's of various access points			Both Ha'ikū Stream and Puulau Street drainage ditch access points were declared in appropriate access points due to safety and environmental concerns – group agreed by consensus – and both were eliminated	Ken Rose (Ha'ikū Village resident) Rae Leong (Ha'ikū Village resident) Holly Savier (Ha'ikū Village resident, NB rep) Melissa Miranda-Johnson (Mayor's rep) Mo Radke (Kāne'ohe NB chair of HS task force) Vernon Ansdell (Friends of Ha'ikū Stairs) Shelly Correia (DHHL) Mike Matsuo (BWS) Mahealani Cypher (Ko'olau Fdn / Ko'olaupoko Hawaiian Civic Club)
	MOANALUA VALLEY	<ul style="list-style-type: none"> • Good hike for experienced hikers • Away from the neighborhoods 			
	WCC/DOH/DOY	<ul style="list-style-type: none"> • Ample public parking available at nearby parks • Restrooms available at nearby parks • Away from neighborhoods • Deterrent to reduce crime on vacant land mauka of WCC • Opportunity to create pathway & fencing to manage access better 			

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

	HOPE CHAPEL	<ul style="list-style-type: none"> • Parking available • Away from residential neighborhoods • Back gate onto service road 			
	PUONI PLACE	<ul style="list-style-type: none"> • Easiest hike to get to stairs (avoids bamboo forest) • Access via county public roads • Well-known access point 			
	LOLI STREET	<ul style="list-style-type: none"> • Easiest hike to get to stairs (avoids bamboo forest) • Access via county public roads 			
	KUNEKI ST/ MAIN GATE AT "OLD HA'IKU RD"	<ul style="list-style-type: none"> • Easy access to Stairs (paved roads run close to beginning of stairs) • Access on county and state roads (except for short section of KSBE roadway at the gate) • Most well-known access point • Parking possible inside the valley (w/ DHHM permission) 			
	"OLD HA'IKU ROAD"	<ul style="list-style-type: none"> • Reduces traffic through the neighborhood & Kuneke St. • Diverts Kamakau school traffic away from Kuneke • Avoids residential area • Kuneke Road could possibly be fenced off to reduce impact on neighbors at that access point 			
	NEW IDEA: RECONNECT LIKELIKE HIGHWAY TO H-3 SERVICE ROAD	<ul style="list-style-type: none"> • Avoids neighborhoods • Avoids most landowners except DOT • Provides access for other activities • Re-route utility trucks and emergency vehicles outside neighborhoods • Helps remove invasive species • Parking possible alongside 	<ul style="list-style-type: none"> • DOT might oppose? • Road needs major improvements, costly fixes • No parking (see above) • No facilities • Liability/safety issues • Environmental issues (state & BWS) • Current administration is "lame duck" 	Pending issues for future discussion: 1) what constitutes "Managed Access" 2) Identify top 3 options and potential costs, if any 3) Would agencies and/or landowners affected by top 3 options allow access if concerns are mitigated?	

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

		service road near stairs	<ul style="list-style-type: none"> • New administration won't give it priority • Hikers will look for easier exits, e.g., via neighborhoods 		
8/27/2014	REPORTS FROM COMMITTEE MEMBERS			<p>Ualia Woodside: reported that she and her land management team explored access points to Ha'ikū valley and the stairs recently, could not find an access road from the valley loop road to the DOT service road or Ha'ikū Stairs. Mahealani pointed out that there is a construction road that connects the loop road to</p>	<p>Ken Rose (Ha'ikū Village resident) Rae Leong (Ha'ikū Village resident) Mo Radke (chair, Kāne'ohe NB task force on HS) Mike Matsuo (BWS) David Rodrigues (DOT) Ualia Woodside (Kamehameha Schools) Vernon Ansdell (Friends of Ha'ikū Stairs) Holly Sevier (Ha'ikū Village resident, NB rep) Mahealani Cypher (Ko'olau Foundation / Ko'olaupoke Hawaiian Civic Club)</p>
				<p>the service road. Woodside noted the Stairs appear in good condition, and that there was a variety of rare and endangered native Hawaiian plant species alongside the stairs. She also noted many invasive species along the trail. She was concerned about severe damage to buildings and vegetation at top of the stairs, in the "Wao Akua" (which is sacred to Hawaiians).</p>	
				<p>Mike Matsuo and Mahealani Cypher brought additional maps for members to review.</p>	
				<p>Mo Radke reported that he had been checking into potential coverage for a nonprofit to operate and manage the Stairs, and was given an estimate of \$25,000 per year for coverage, a figure he feels is unjustified given the history of the stairs and lack of serious injuries reported.</p>	

APPENDIX A
THE HA'IKŪ STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

	WHAT IS "MANAGED ACCESS"? Committee members were tasked to define what they consider to be optimal managed access, should the Ha'ikū Stairs be reopened.			<u>Carrying capacity</u> – numbers of people and/or vehicles would need to be limited to a set amount per day (can be affected by weather) <ul style="list-style-type: none"> • Number of people on the stairs at any given time • Avoid "Peak Hours" to minimize traffic impact on neighborhoods 	
				<u>Signage</u> <ul style="list-style-type: none"> • Instructional • Warn of hazards • Education / Informational • Cultural • Security 	
				<u>Landowner Indemnification</u> <ul style="list-style-type: none"> • Insurance • Land use agreements • Passage of legislation 	
				<u>Communications Plan</u> <ul style="list-style-type: none"> • Outreach via media to all concerned (various media, Internet, YouTube, etc.) • Inform the public, hikers, where the legal access point would be 	
				<u>Security</u> <ul style="list-style-type: none"> • 24-hour enforcement, both roving & stationary • Perhaps off-duty HPD? (guard needs to be able to arrest trespassers) • DOCARE officers? • Fencing, gates where needed • Cameras (use game cameras?) 	

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

				<u>Officially mapped trails or access ways</u> <ul style="list-style-type: none"> • Avoid residential areas 	
				<u>Facilities/People</u> <ul style="list-style-type: none"> • Parking • Restrooms • Trash receptacles/ removal • Staff & volunteers or docents • Concession • Emergency action plan (contingencies) 	
				<u>Business Plan</u> <ul style="list-style-type: none"> • Operation by non-profit vs. for-profit • Revenues from permit / access fees, etc. • If fees are charged, cultural service work could substitute for fee 	
	TOP OPTIONS – Based on preferences by two groups on committee:			1. Kane'ohe District Park / Windward Community College	
				2. Hope Chapel	
				3. "Old Ha'iku Road" gate	
				<u>Concerns Raised:</u> <ul style="list-style-type: none"> • Kamehameha Schools – "Old Ha'iku Road" inadequate, too narrow, in need of repair; use would impact and is not compatible with current operations of preschool, 'Iliha based education program and nursery • Kuneki Street resident – opposes use of Ha'iku gate because of traffic problems created 	

APPENDIX A
THE HA'IKU STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

				<ul style="list-style-type: none"> • Puoni Place resident also opposes use of Ha'ikū gate because of safety concerns • Both Kuneki St. and Puoni Pl. residents oppose use of either Ha'ikū gate or Puoni Pl. access • Friends of Ha'ikū Stairs – "Old Ha'ikū Road" diverts traffic outside the subdivision, including traffic from Kamakau school • DOT – traffic along Kuneki or "Old Ha'ikū Road" can be managed through a managed access plan 	
				<p><u>Homework for next week:</u></p> <ol style="list-style-type: none"> 1. Check w/ WCC/DOH regarding access via their campuses (Mahealani) 2. Check w/ Hope Chapel & Diocese re: access via their gate (Mo) 3. Check on Likelike access to DOT service road (David Rodrigues) 	
9/3/2014	REPORTS FROM MEMBERS			<p><u>Mahealani</u> – checked w/ WCC chancellor Dykstra, who indicated they would be open to allowing access via their campus on two conditions: (1) no parking on campus (cars could park at district park?); and (2) all hikers would need to be escorted in and out of the WCC campus.</p>	

APPENDIX A
THE HA'IKŪ STAIRS WORKING GROUP MEETING NOTES (July – Oct. 1, 2014)

COMPARISON OF ACCESS POINTS TO HA'IKŪ STAIRS

ACCESS POINT	Vehicular Access to Stairs	Public Parking available	Restrooms available	Away from residences	Well-known	Removes Invasive	Additional costs	Landowner Crossings	Other
Moanalua Valley	Via Moanalua Valley park	X	X	X	X			C&C / State	Not direct access
Ha'ikū Stream								C&C / private	Not acceptable
Puulau Place/Kuneki Way Drainage Channel								C&C	Not acceptable
"Old Ha'ikū Road"/Ha'ikū Gate					X		X	Private	No direct access; access from valley, loop road needs to be restored
Kuneki Street Gate					X		X	C&C / private	Not direct access; access from valley loop road
Puonā Place	X							C&C / private	BWS easement
Lolii Street	X							C&C / private	
Hope Chapel	X	Private pkg						C&C / private	Catholic Diocese
Windward CC/State DOH	X	X	X	X				C&C / State	Trail mauka of WCC past DOH facility
Likely to H-3 service road	X			X			X	State	Connection needs to be restored

TWO PRIMARY OPTIONS: IMPACT OF VARIOUS SCENARIOS

SCENARIO	EA/EIS NEEDED	Reduces trespass/neighbor Nuisance	Residual Trespass Nuisance	Reduces Landowner Liability	Additional Costs	Reduces long-term human impacts	Reduces Impact to Wao Akua	Educational / Hiking / Training opportunity	Retain historic property	Access for scientific & cultural purposes	Revenue generator	Increase property values	Compatibility with residential neighborhood
REMOVE STAIRS	X	X	Chronics, renegades	X	Est. \$4-5 million to remove	X	X					Less nuisance	X
MANAGED ACCESS	X	X	Chronics, Renegades	X	Est. \$7k for maint. /mgmt		Depends on capacity	X	X	X	X	Community amenity	Depends on capacity

APPENDIX B – ACCESS POINTS TO HA'IKŪ STAIRS

The ten (10) access points to the stairs discussed by the group were:

1. Moanalua Valley Trail
2. Ha'ikū Stream
3. Puulau Place/Kuneki Way Drainage Channel
4. "Old Ha'ikū Road"
5. Kuneki Street Gate
6. Puoni Place Gate
7. Lolii Street Cul-de-sac
8. Hope Chapel
9. Windward Community College/State Hospital
10. Likely Highway Access to H-3 Service Road

The group unanimously decided that Ha'ikū Stream and the Puulau Place/Kuneki Way drainage channel were inappropriate due to safety and environmental concerns. The Moanalua Valley Trail was also eliminated as it was not entirely relevant to the problems being experienced by the community. The pros and cons for each that the group identified are presented below:

“OLD HA'IKŪ ROAD”:

PROS	CONS
Reduces traffic through neighborhood and Kuneki Street gate	Unacceptable liability exposure
Diverts Kamakau Charter School traffic away from Kuneki Street gate.	Disrupts operations and business activities of landowner and tenants
Avoids residential area.	Would result in parking on residential streets
Kuneki Street could be fenced off to reduce impact on neighbors at that access point.	No toilet facilities available, trash problems
	Potential for confrontations with landowners
	Use is illegal and constitutes trespassing

KUNEKI STREET GATE:

PROS	CONS
Provides easy access to stairs via paved road. (An old construction road would need to be reopened.)	Unacceptable liability exposure
Access via county and state roads (except for section across KS and Hui Kū Maoli Ola property).	Disrupts operations and business activities of landowners and tenants
Is a well-known access point.	Would result in parking on residential streets
Parking possible inside the valley (with DHHL permission).	No toilet facilities available, trash problems
	Potential for confrontations with landowners
	Use constitutes trespassing

APPENDIX B – ACCESS POINTS TO HA'IKŪ STAIRS

PUONI PLACE GATE:

PROS	CONS
Easiest hike to get to stairs (avoids bamboo forest)	Unacceptable liability exposure
Access via county public roads.	Would result in parking on residential streets
Is a well-known access point	No toilet facilities available, trash problems
	Potential for confrontations with landowners
	Use constitutes trespassing

LOLII STREET CUL-DE-SAC:

PROS	CONS
Easiest hike to get to stairs (avoids bamboo forest)	Unacceptable liability exposure
Access via county public roads.	Would result in parking on residential streets
	No toilet facilities available, trash problems
	Potential for confrontations with landowners
	Use constitutes trespassing

HOPE CHAPEL:

PROS	CONS
Parking available on-site	Unacceptable liability exposure
Away from residential neighborhoods	No toilet facilities available, trash problems
Back gate opens to service road	Potential for confrontations with landowners
	Use constitutes trespassing

WINDWARD COMMUNITY COLLEGE/STATE HOSPITAL:

PROS	CONS
Ample parking available nearby	Unacceptable liability exposure
Restrooms available at nearby City parks	No toilet facilities available, trash problems
Away from residential neighborhoods	Use constitutes trespassing
Could be a deterrent to reduce crime in vacant land mauka of WCC	Patient privacy issues with State Hospital
Opportunity to create pathway and fencing to manage access better.	

APPENDIX B – ACCESS POINTS TO HA‘IKŪ STAIRS

LIKELY HIGHWAY ACCESS TO H-3 SERVICE ROAD:

PROS	CONS
Avoids residential neighborhoods	DOT may oppose use
Avoids all landowners except DOT	Road would need major and costly improvements.
Provides access for other activities	No parking
Re-routes utility trucks and emergency vehicles outside residential neighborhoods	No facilities for hikers
Helps remove invasive species	Liability/safety issues
Parking could be possible alongside H-3 service road near the stairs trailhead	Environmental issues (for State and BWS)
	Current administration is “lame duck” which could result in delays for approvals
	New administration may not give this proposal a high priority
	Hikers will look for easier exits such as through residential neighborhoods.
	Vehicle access difficult

APPENDIX C – LETTER FROM LANDOWNER

The following letter was received from landowner Department of Hawaiian Home Lands (DHHL) on September 26, 2014:

NO. 11-1000000000
RECEIVED
STATE OF HAWAII



**STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS**

11-1000000000
RECEIVED
STATE OF HAWAII

NO. 11-1000000000
RECEIVED
STATE OF HAWAII

NO. 11-1000000000
RECEIVED
STATE OF HAWAII

September 26, 2014

Mahealani Cypher, Koolaupoko Hawaiian Civic Club
Rae Leong, Hukulele Resident
Ken Ruse, Ha'ku Village Resident
Ulalia Woodside, Kaneohe School
Holly Sevier, Kaneohe Neighborhood Board
Vernon Ansdell, Friends of Haiku Stairs
Mo Radke, Kaneohe Neighborhood Board
Mike Matsuo, Board of Water Supply
Kapa'li Schirman, Hui Ku Maoli Ola
David Rodriguez, Department of Transportation
Melissa Miranda-Johnson, Office of the Mayor

Dear Members of Haiku Stairs Working Group:

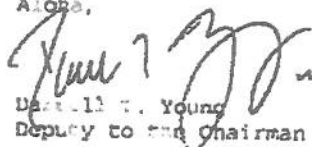
Subject: Haiku Stairs, Koolaupoko, Island of Oahu

The Department of Hawaiian Home Lands (DHHL) appreciates the opportunity to serve on the Haiku Stairs Working Group and everyone's mana'o that has been shared during these meetings.

As mentioned at the meeting of September 17, 2014, based on safety and liability concerns with regards to a managed access through Hawaiian home lands, the risk to the department is far too great for consideration; therefore prudent management dictates that DHHL maintain its position to NOT SUPPORT the opening of Haiku Stairs. This position remains consistent with that of previous administrations.

Should you have questions, please call Shelly Carcero, Land Agent, Land Management Division at 620.9459.

Aloha,


Darrell T. Young
Deputy to the Chairman

APPENDIX C – LETTER FROM LANDOWNER

Any managed access/use plan would require traversing a portion of DHHL property, which is coincident with the easements granted to the State Department of Transportation (DOT) for the Interstate H-3 Highway right of way. Thus, DHHL's letter appeared to be problematic. Email discussions with Darrell Young, Deputy to DHHL's Chair, however, indicated that there is a possibility that use of their property might be possible under certain special conditions. These special conditions, which are included in the existing License Agreement #525 between DHHL and the City, involve the negotiation of rent if commercial activities are conducted on the subject DHHL property.

ITEM FOR INFORMATION NO. 2

"October 27, 2014

MOANALUA AND
WAIMALU
AQUIFER
SYSTEMS
UPDATE

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

Chair and Members:

Subject: Moanalua and Waimalu Aquifer Systems Update

Erwin Kawata, Program Administrator of our Water Quality Division, will present an update of our Moanalua and Waimalu Aquifer Systems.

Respectfully submitted,

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

Attachment"

The foregoing was for information only.

DISCUSSION:

Water Quality Program Administrator Erwin Kawata gave the presentation. Mr. Miyashiro asked the Board Members if they would like to continue receiving this update every month or if they preferred every other month. Mr. Miyashiro suggested that this update be given every other month unless Mr. Lau or Mr. Kawata feel there is something of significance to report sooner. Mr. Lau thanked Mr. Miyashiro for recognizing that this is going to be a long-term issue, and it will be on the agenda for many years to come. Mr. Lau stated that they would make the change from having this update every month to every other month.

Mr. Miyashiro thanked Mr. Lau and Mr. Kawata for their diligent efforts in monitoring the Red Hill situation.

Mr. Miyashiro acknowledged a member of the public who requested to testify and asked him to come up to the podium and to state his name.

Testimony by Mr. Dan Purcell:

"Dan Purcell, member of the public. I just want to commend Ernest Lau for his excellent comments at the last Red Hill task force meeting, the last time I was in here, for him to be very assertive on this topic. And he absolutely was, and they talked about the other tanks on the island that we have, there are a whole slew of them. And they said they weren't any more and they were presented with assurance from the Department of Health, Environmental Services Department, Gary Gill, and of course Ernest here that there were in fact a number of other tanks, not as large but you know, in ground tanks. So the Navy was left kind of not really being honest in that

meeting, and they did eventually kind of concur that yeah maybe we do have more. So I appreciate him stepping up and being resolute on that. And also Gary Gill also and his staff did an excellent job demanding this be addressed. And I will also tell you that the Commission on Water Resource Management wants in on this as well for the state, so they're going to be having to come in there and visit their Commission meeting as well. Thank you." Mr. Miyashiro thanked Mr. Purcell for his comments.

WATER FOR LIFE

Safe, dependable, and affordable water now and into the future



Board of Water Supply
City and County of Honolulu

Moanalua and Waimalu Aquifer Systems Update

October 27, 2014





WATER FOR LIFE

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Board of Water Supply
City and County of Honolulu





October 2014 Update

- October 2014 samples show no fuel contaminants detected in 5 BWS wells near Red Hill Facility. Next sample collection is January 2015
- Red Hill Task Force (SCR 73) – 2nd meeting on 10/7/14
 - Navy response to questions
 - Tank maintenance and repair method (API 653)
 - Graph soil vapor and ground water data collected to date
 - Navy comments on installing secondary containment
 - New monitor well installation status – one complete
 - EPA proposed UST rule changes
 - Reviewed draft letter to the legislature
 - Next meeting, Thursday, November 6, 2014





October 2014 Update – continued

- Requested support from Hawaii congressional delegation and national water organizations for adoption of EPA UST rule change to regulate deferred field constructed USTs.



WATER FOR LIFE

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Board of Water Supply
City and County of Honolulu

Questions/ Discussion



ITEM FOR INFORMATION NO. 3

"October 27, 2014

WATER MASTER
PLAN UPDATE

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

Chair and Members:

Subject: Board of Water Supply Water Master Plan Quarterly Update

Barry Usagawa, Program Administrator of our Water Resources Division, will present an update of the Board of Water Supply Water Master Plan.

Respectfully submitted,

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

Attachment"

The foregoing was for information only.

DISCUSSION: Water Resources Program Administrator Barry Usagawa gave the presentation. Information Officer Jill Kuramoto gave the presentation on the three-year engagement strategy. Ms. McMurdo asked who would be handling the customer survey, and Ms. Kuramoto replied that the Communications Office would be handling that.

Mr. Dan Purcell stated that the Water Master Plan presentation was excellent with a lot of good insight and requested a copy of the presentation. Mr. Lau informed him that he could find it on the BWS website, but to contact Lisa Kim if he wasn't able to locate it.



Water Master Plan *Board Quarterly Update*



October 27, 2014



Water Master Plan Update

- Schedule Update
- Tasks Update
- Pipeline Condition Assessment Pilot
- Reservoir Condition Assessments
- Public Engagement Strategy



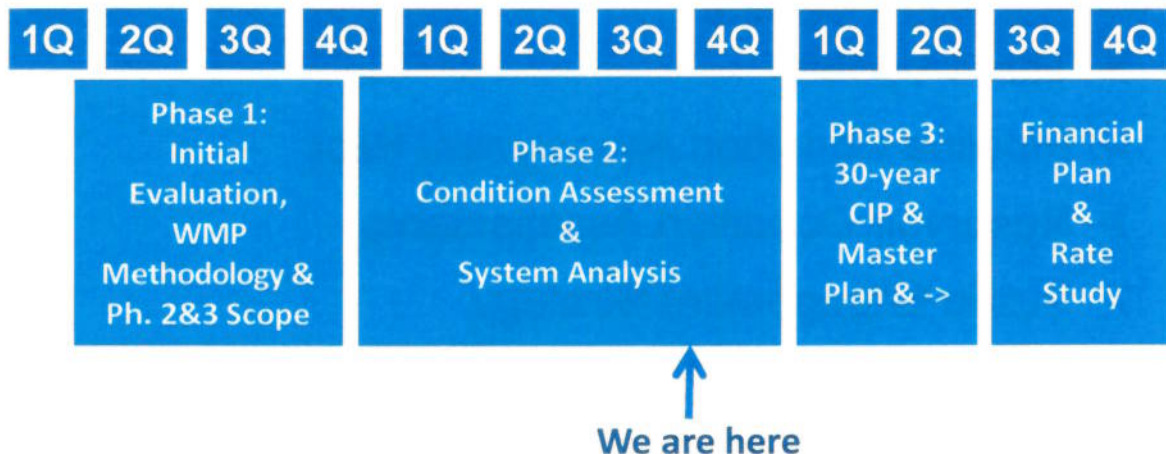
Water is Essential for Life

The BWS is responsible for moving water from its source to where people need it, now and into the future. Oahu's water system involves capturing, treating, storing, moving and sustaining water across the island.

The Water Master Plan is a comprehensive program that evaluates the entire water system, identifies necessary improvements, and balances needs and costs to provide safe, dependable and affordable water for our customers through the next 30 years.



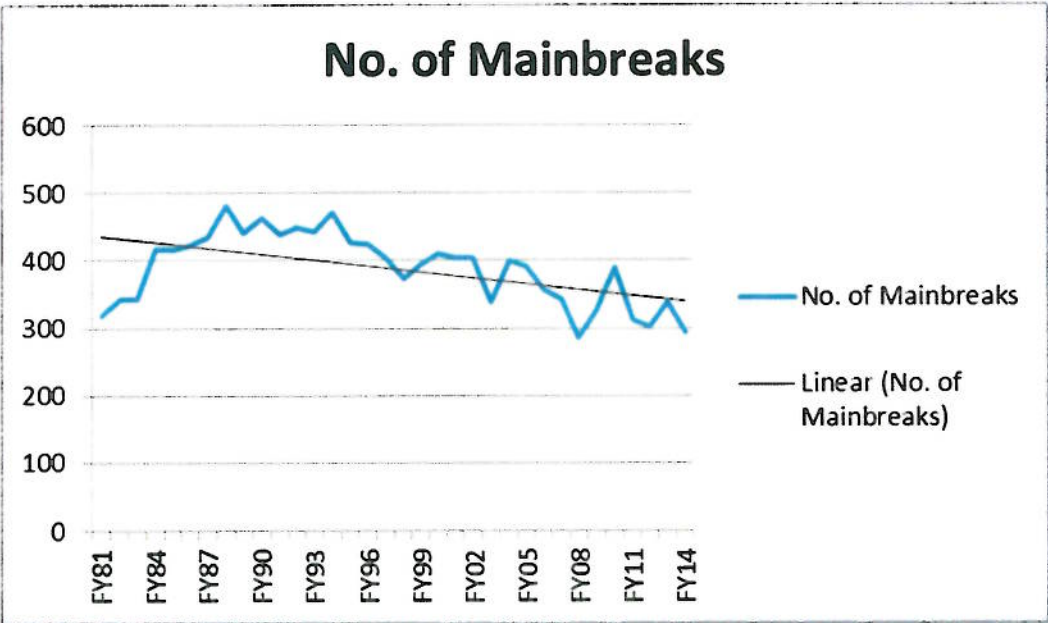
Water Master Plan Schedule



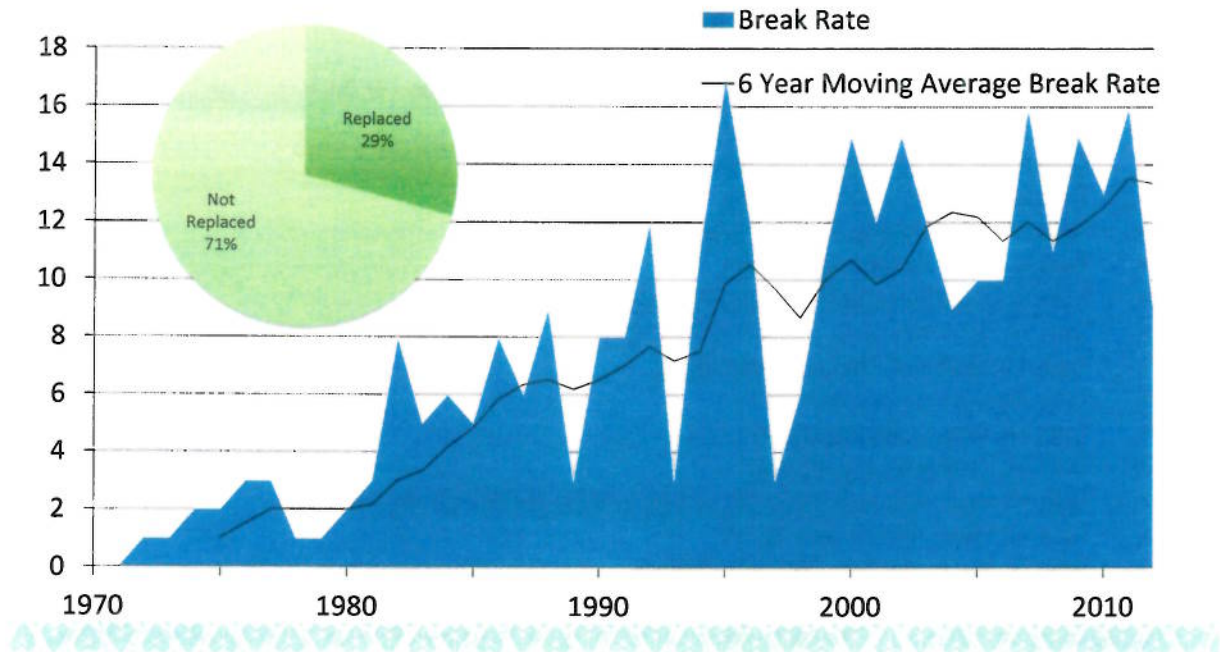
Water Master Plan Tasks

- Task 1: Causal Factors Analysis for Pipelines
- Task 2: Risk Based Pipeline Prioritization Using CapPlan
- Task 3: Implement Pipeline Condition Assessment: Evaluation of CA technologies
- Task 4: Implement Non-Pipeline Condition Assessment
- Task 5: Background Info and Planning Data
- Task 6: Water Source Evaluation
- Task 7: Water Quality Treatment Evaluation
- Task 8: Water System Evaluation
- Task 9: Operation and Maintenance Evaluation
- Task 10: Recommended Capital Improvement Plan
- Task 11: Financial Plan and Rate Study
- Task 12: Communications Plan
- Task 13: Project Management
- Task 14: Update Causal Factors
- Task 15: Recommend Transmission Pipeline Rehabilitation and Replacement
- Task 16: Water Master Plan Report
- Task 17: Implementation Plan Coordination
- Task 18: Project Support (Pilot e-Pulse & Sahara 2)

Main breaks Trend is Decreasing



16-inch to 42-inch Break History



Sahara 2 Pipe Wall & Leak Detection

- A/V + Acoustic & EM Pipe Wall tool
- Leak detection & visual pipe lining condition
- **Detects spot corrosion**
- Substantial Logistical support
 - Install 4" Tap, Hydraulic modeling, Velocity testing, Valve closure, Pump operation, Traffic safety
- Recommended velocity 1.5 fps
- Tether drag affects survey distance < 2,000'
- Concerns on main breaks & sediment transport
- Wish list:
 - Miniaturize or launch from FH?



Use: Detect localized distress for targeted rehabilitation

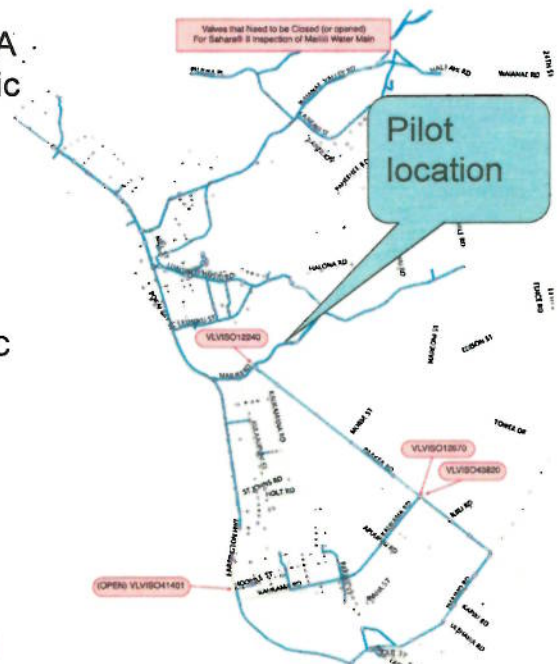
Sahara 2 Pilot Testing Aug. 2014

- August 5: Mailiili 20" mauka direction
- August 6: Palolo 16"
- August 7: Mailiili 20" makai direction
- BWS & Pure assignments pre-planned
- Inspection schedule detailed to the hour



Mailiilii W20" Sahara 2 Pilot

- Piloting Sahara 2 internal pipeline CA tool for video, leak detection, acoustic and electro-magnetic pipe wall assessment
 - Pin-point known leak under drainage culvert
 - Provide pipe condition information
 - Sahara 2 designed for CI/DI pipe, not CC



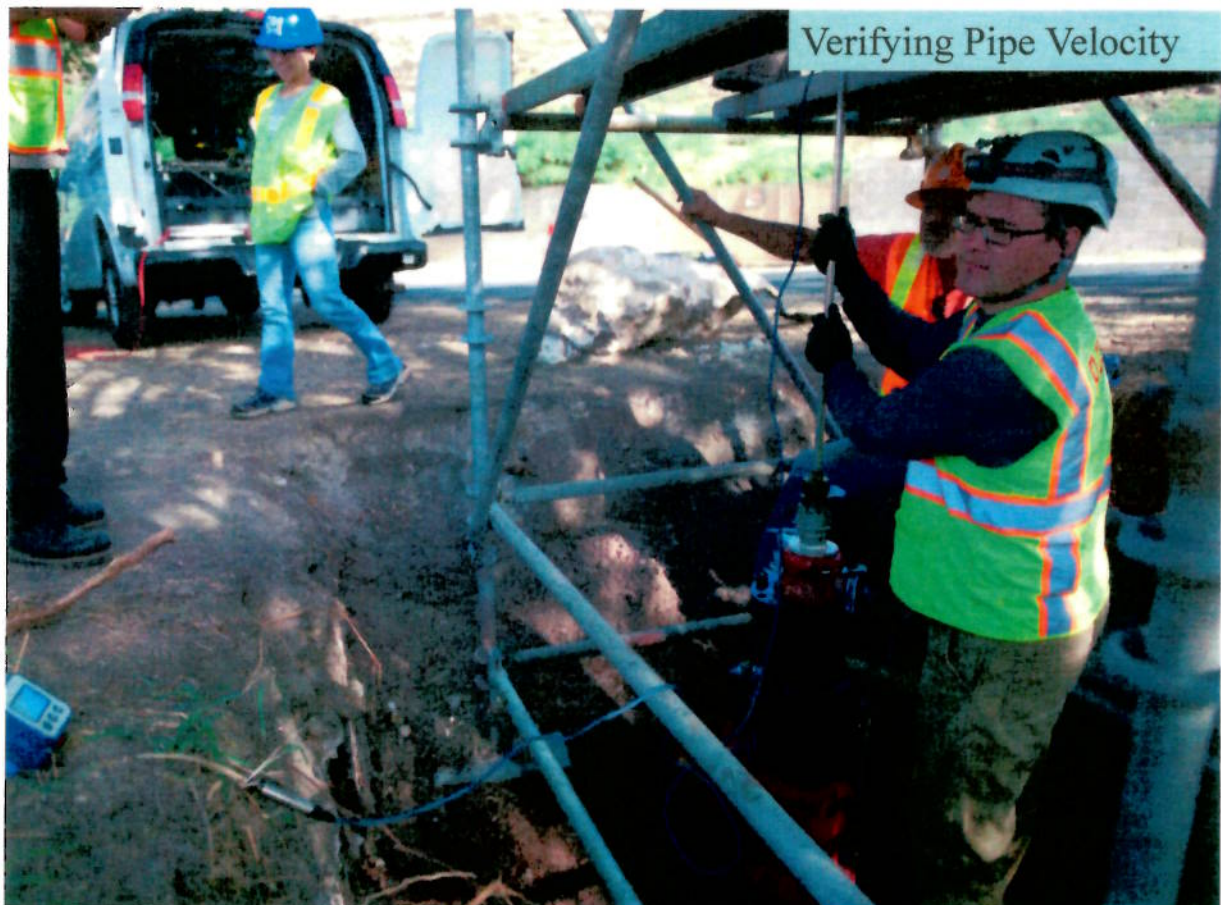
WATER FOR LIFE

Safe, dependable, and affordable water now and into the future



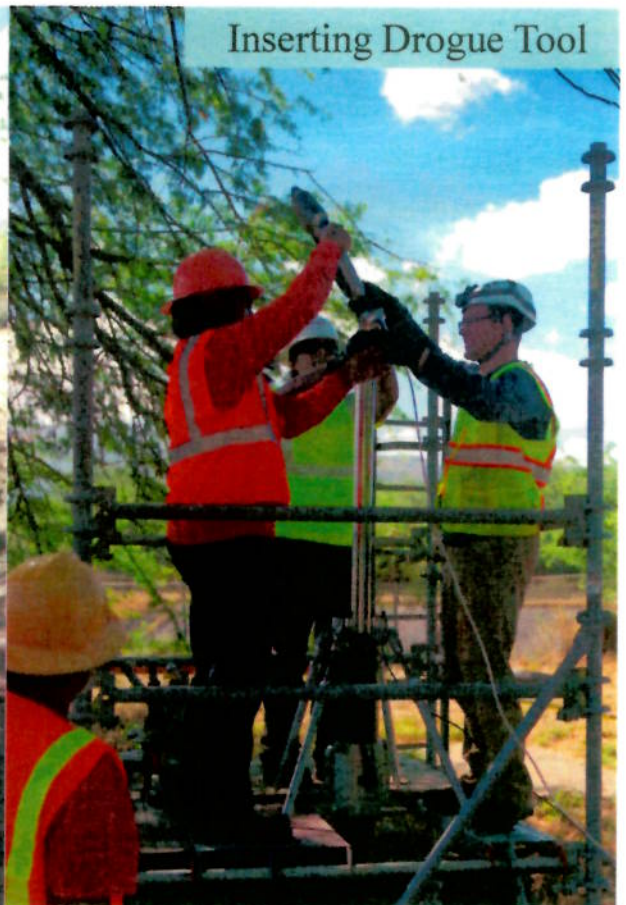
Board of Water Supply
City and County of Denver

Mailiili W20" Tap Excavation



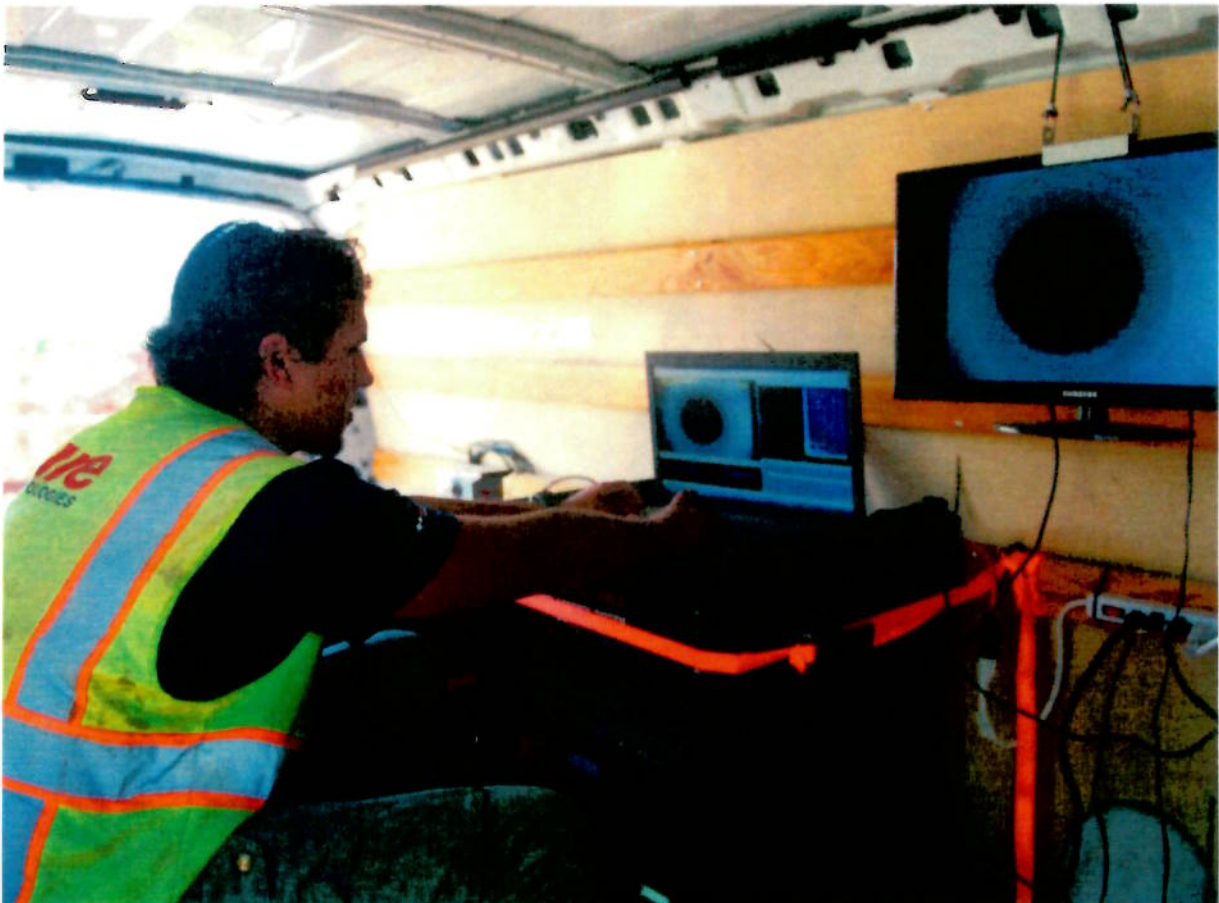


Prepping tool for insertion



Inserting Drogue Tool

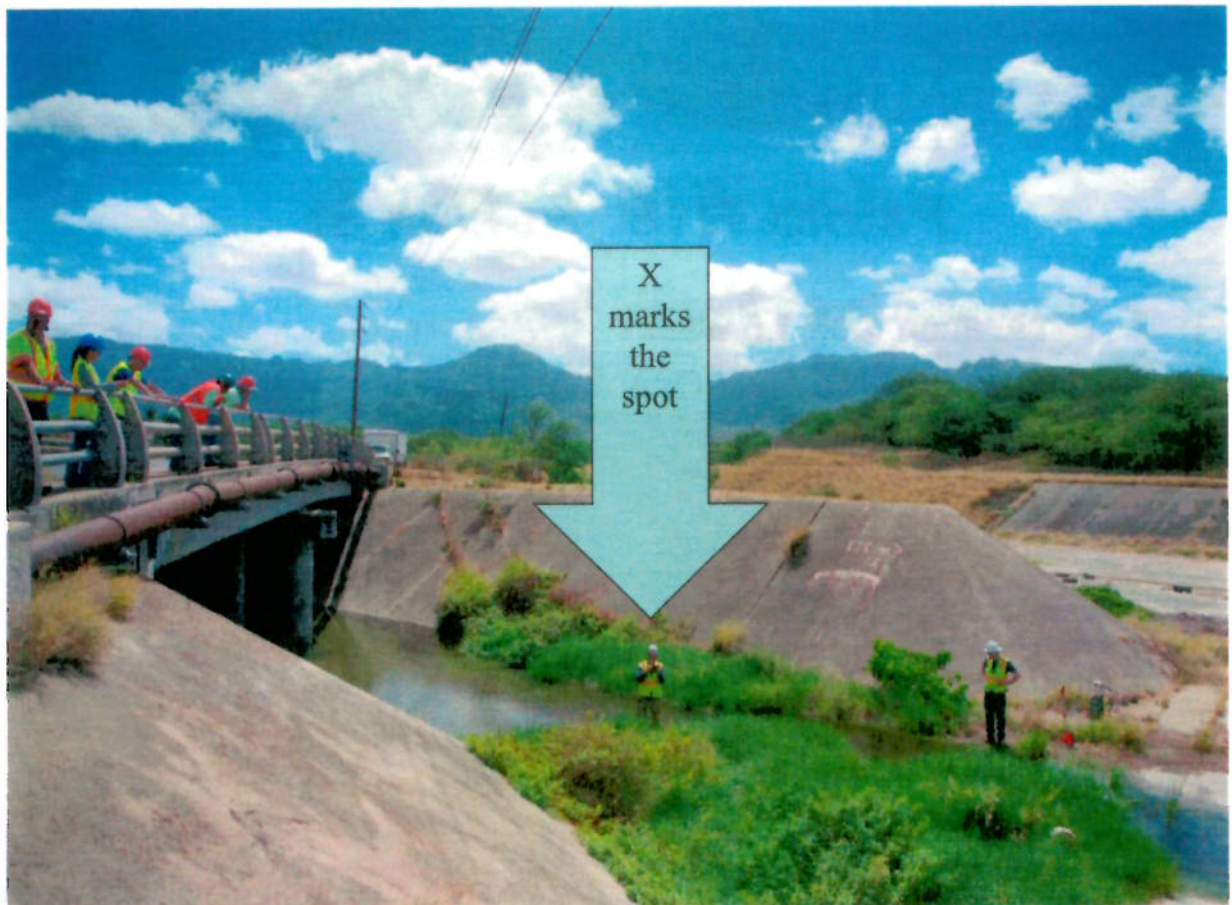
Feeding Disinfected Cable



Mailiili W20" Sahara 2 Pilot

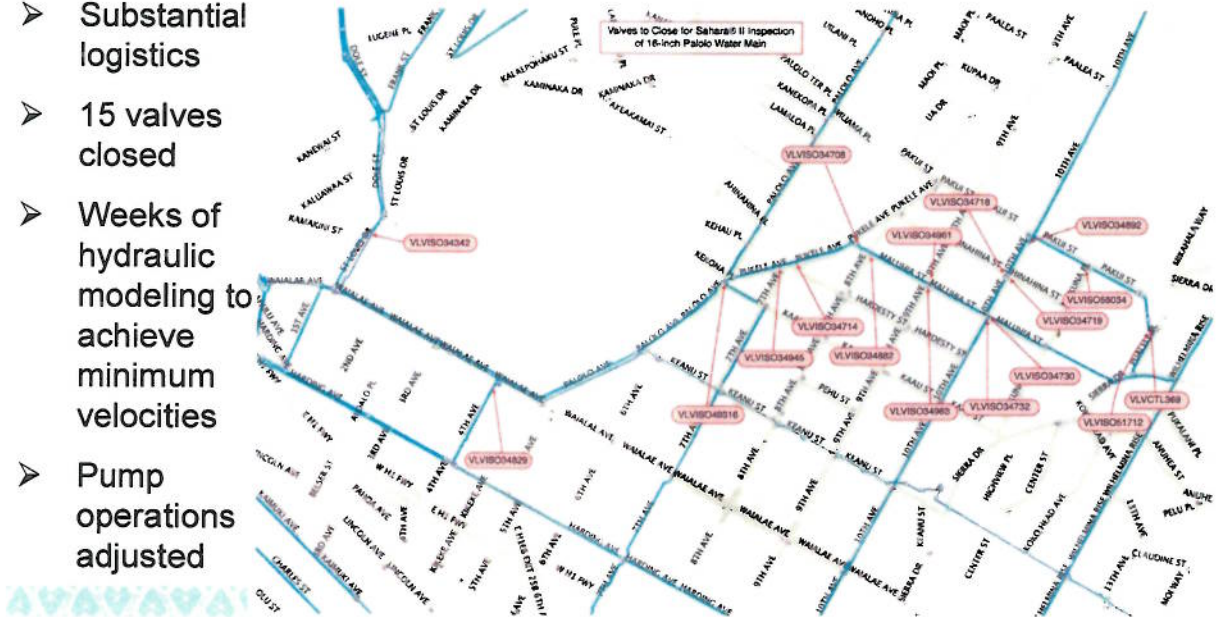


- **Mauka:**
 - Very large leak located under channel
 - 100's of gpm?
 - Drogue chute challenged to travel past the leak
 - Turned 2-2.5 mgd pumps on to increase pipe velocity
 - **Allows BWS to design leak repairs**
- **Makai:**
 - 1,400' went past previous main breaks. Velocity was 1.2 fps.
 - Video showed very few internal pipe distress
 - **Pipe wall assessment will inform whether to replace the entire 20" or just the Mailiili channel portion**



Palolo W16" Sahara 2 Pilot

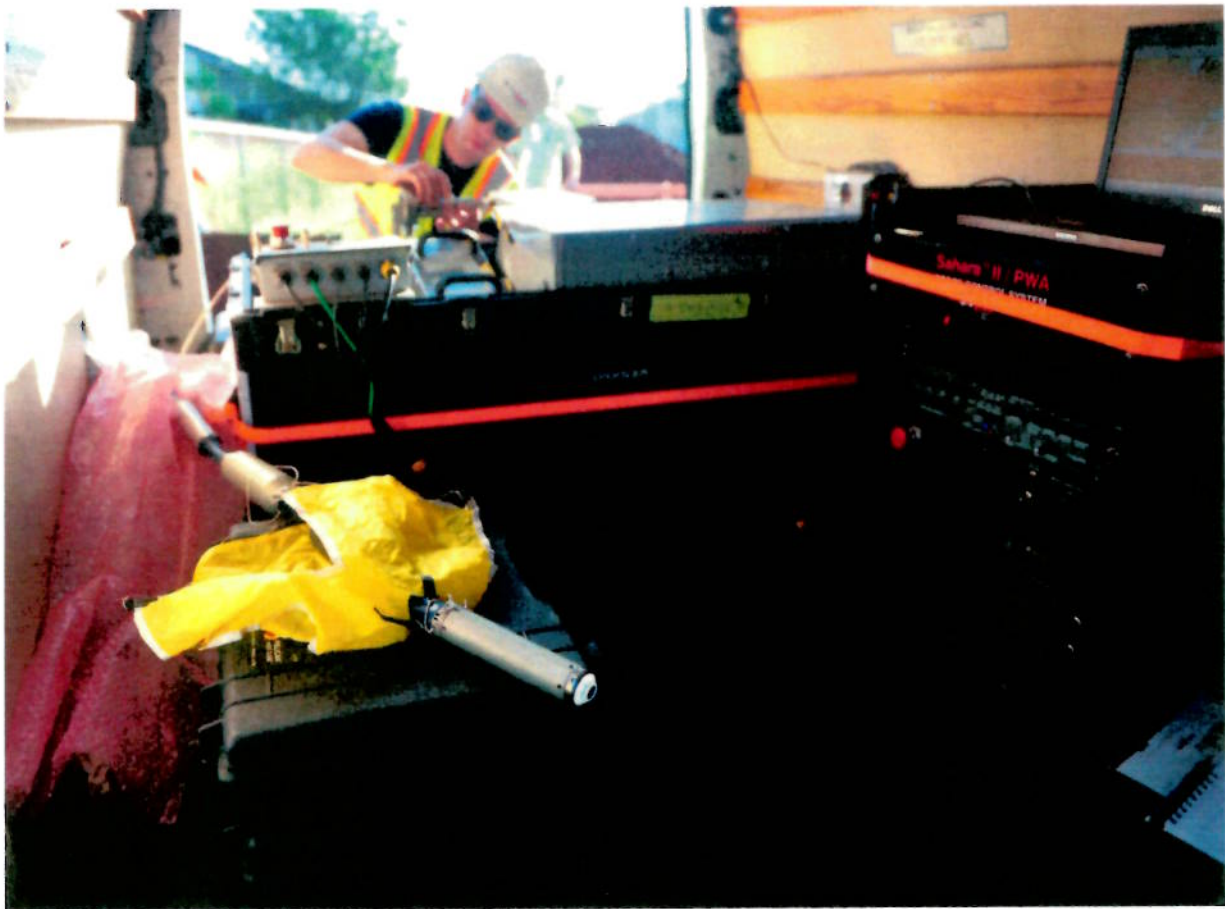
- Substantial logistics
- 15 valves closed
- Weeks of hydraulic modeling to achieve minimum velocities
- Pump operations adjusted



Palolo W16" Pukele St.

- Excavation took 1.5 weeks
- Thanks to BWS Field Operations!







Palolo W16" Sahara 2 Pilot

- Work completed
 - 1750 LF, as planned, Pukele to Maluhia and 10th Ave.
- Initial results
 - No leaks detected
 - Internal tuberculation ranged from relatively heavy sections to isolated tubercles in most pipes.
 - Identified the main break repair splices along Maluhia street.
 - Splices were mortar lined, so no internal corrosion was evident
- Follow-on work
 - Acoustic & EM Pipe Wall Assessment data were collected within the inspection limits.
 - Pipe wall assessment will inform whether the Pukele 16" needs replacement since no main breaks. Would reduce capital costs



Pipe CA Implementation Strategy

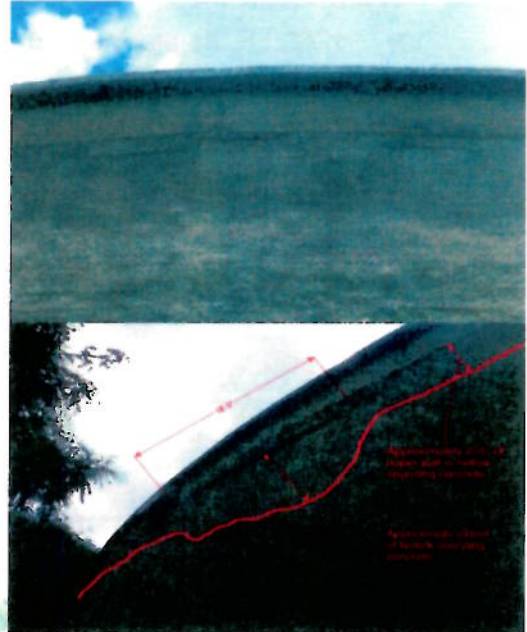
- Focus CA surveys on 16" - 42" Transmission Mains as MB trend is increasing from 10/year in mid-1995 to ~14/year currently.
- Validate the pilot results proving that CA tools provide accurate and actionable information on leaks and pipe wall conditions coupled with research on similar applications on the mainland and Australia
- Identify all costs of the CA and compare to its benefits. If the B/C > 1, proceed. Tailor CA tools to the pipe situation.
- Illustrate how the CA results will be used in CIP project formulation and prioritization.
- CA's can be cost effective if there is a reduction of pipeline lengths that need to be replaced (compared to if no condition assessments were conducted), and to determine remaining pipe life
- Obtain approval by November and complete CA's by Feb 2015





Reservoir Condition Assessments

- 172 of 172 reservoirs have been externally surveyed
- 30 of 30 select reservoirs have been internally inspected
 - Remote Operated Vehicles Water Quality Assurance Procedures Approved
- 16 reservoirs undergoing structural evaluation



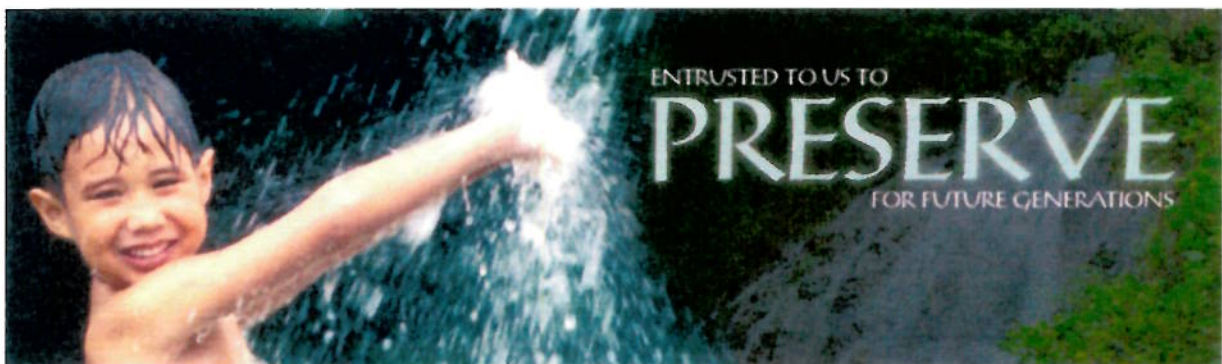
3-Year Public Engagement Strategy

- Key Topic Areas include:
 - City Audit Report to City Council August 2015
 - BWS Water Master Plan (Water Supply, Demand Forecasts, Systems, CIP)
 - Revised Water Rates Justification & Design
 - AMR, BWS Organizational Study, Improvements to CC&B and Customer Service
 - Alignment of initiatives with Strategic Plan
- Primary Stakeholders
 - Ratepayers and Residents
 - Stakeholder Advisory Group
 - BWS Employees and Retirees
 - Elected Officials
 - Press and Media



Immediate Actions

- Completing fact sheets & FAQs
 - Water Master Plan
 - Condition Assessment
 - Main Breaks
 - How BWS enhances the Value of Water
- Engaging focus groups
- Conducting a baseline customer survey
- “Face-to-face” interviews with key stakeholders
- Developing a stakeholder advisory group



ITEM FOR INFORMATION NO. 4

"October 27, 2014

GROUNDWATER
LEVELS

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

Chair and Members:

Subject: Status Update of Groundwater Levels at All Index
Stations

There is one aquifer index well within low groundwater status for the production week that ended on October 4, 2014. Kaimuki is under an alert status. The weekly production average for the period was 143.37 million gallons per day.

The Board of Water Supply rainfall index for the month of September 2014 was 63 percent of normal, with a 5-month moving average of 106 percent. The Hawaii Drought Monitor indicates abnormally dry conditions for most of Oahu, as of October 7, 2014. The National Weather Service is forecasting below normal rainfall from November 2014 through April 2015. Index monitor wells are exhibiting level to slightly decreasing trends, reflecting the above-average rainfall earlier this summer season, combined with pumpage demands.

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 gave the report.

There were no comments or discussion.

PUMPAGE, HEAD, AND RAINFALL REPORT

Week of 9/28/14 to 10/04/14

STATION	MGD	HEAD	STATION	MGD	HEAD	STATION	MGD	HEAD		MGD	HEAD
METRO			WINDWARD			EWA-WAIAANAE (CONT)			PH (CONT)		
KULIOUOU	0.00					MAKAHA IV	0.00		PEARL CITY II	0.96	
WAILUPE	0.00		WAIMANALO II	0.44		MAKAHA V	0.00		PEARL CITY III	0.49	
WAIALAE-IKI	0.00		WAIMANALO III	0.09		MAKAHA VI	0.41		WAIU	0.97	
AINA KOA	0.48		KUOU I	0.00		MAKAHA SHAFT	0.00	12.85	NEWTOWN	2.08	
AINA KOA II	0.68		KUOU II	0.11		KAMAILE	0.22		KAONOHI I	0.87	
WAIALAE SHAFT	0.00		KUOU III	0.15		WAIAANAE I	0.13		WAIMALU I	0.00	
MANOA II	0.00		LULUKU	1.02		WAIAANAE II	0.78		AIEA	0.00	
PALOLO	1.15		HAIKU	0.36		WAIAANAE III	0.33		AIEA GULCH 497	0.48	
KAIMUKI HIGH	3.32	22.40	IOLEKAA	0.25		MAKAKILO	0.56		AIEA GULCH 550	0.23	
KAIMUKI LOW	1.04		KAHALUU	0.49		HONOULIULI I	2.38		HALAWA 277	0.94	
WILDER	5.42		WAIHEE	0.00		HONOULIULI II	6.96		HALAWA 550	0.00	
BERETANIA HIGH	4.06	22.49	KAHANA	0.69		SUBTOTAL:	13.58		KAAHUMANU MTR (-)	0.00	
BERETANIA LOW	2.03		PUNALUU I	0.00	17.22	IMPORT FROM PH			KAAMILO FLO MTR (-)	0.00	
KALIHI HIGH	2.39	21.85	PUNALUU II	1.57		KAPOLEI LINE BSTR	15.22		KUNIA I	5.07	18.57
KALIHI LOW	3.55		PUNALUU III	1.15		HONOULIULI LB FLOW	15.94		KUNIA II	2.56	
KAPALAMA	0.59		KALUANUI	1.28		EWA BEACH FLOW	4.14		KUNIA III	1.39	
KALIHI SHAFT	8.03		MAAKUA	0.21		HONOULIULI I (-)	-2.38		HOAEAE	5.64	
MOANALUA	0.59	18.73	HAUULA	0.00		HONOULIULI II (-)	-6.96		EWA SHAFT	0.00	
SUBTOTAL:	33.33					SUBTOTAL:	25.96		WAIPAHU INTCON. (-)	0.00	
			KAHUKU	0.38					EWA-WAIAANAE (-)	-25.96	
IMPORT FROM PH			OPANA	0.31		PEARL HARBOR			PH LOCAL USE:	17.61	
HALAWA SHAFT	8.03	16.24	WAIALEE I	0.45		WAIHAWA	1.64		TOTAL SUBURBAN:	68.46	
KAAMILO	0.00		WAIALEE II	0.48		WAIHAWA II	1.92				
KALAUAO	9.19	16.84	SUNSET BEACH	0.00		MILILANI I	2.08		KALAUAO SPRINGS	0.65	
PUNANANI	11.90		SUBTOTAL:	9.44		MILILANI II	0.00		BARBERS POINT (NP)	4.33	
KAONOHI II	0.00					MILILANI III	2.08		GLOVER TUNNEL (NP)	0.48	
WAIMALU II	0.00	14.80	WIND. EXPORT	0.14		MILILANI IV	2.24				
KAHUMANU	0.96					WAIPIO HTS.	0.83		HEAD CONDITION		
HECO WAIU	2.67		HALEIWA-WAIALUA			WAIPIO HTS. I	0.18		CAUTION	ALERT	CRITICAL
MANANA	0.48		HALEIWA	0.00		WAIPIO HTS. II	0.28			Kaimuki	
KAHUMANU FLOW MT	0.00		WAIALUA	2.01		WAIPIO HTS. III	1.26				
KAAMILO FLOW MTR	0.00		SUBTOTAL:	2.01		WAIPAHU	2.96	18.26			
TOTAL IMP/EXP WAI. INT:	0.00					WAIPAHU II	0.65				
IMPORT FRM WIND:	0.14		EWA-WAIAANAE			WAIPAHU III	2.04				
SUBTOTAL:	33.38		MAKAHA I	0.89		WAIPAHU IV	2.51				
			MAKAHA II	0.42		PEARL CITY SHAFT	0.95	14.58			
TOTAL METRO:	66.71		MAKAHA III	0.49		PEARL CITY I	0.25				

CWRM PERMITTED USE FOR BWS POTABLE SOURCES						PUMPAGE	2014	2013	GRAVITY	2014	2013
	A	B	C	D	E	SUBURB.	68.46	61.72	SUBURB.	7.84	7.15
WATER DISTRICTS	PERMITTED USE	2014	DIFF. B-A	YEAR/ DATE	DIFF. D-A	METRO	66.71	69.93	METRO	0.36	0.36
HONOLULU	45.27	33.69	-11.57			TOTAL:	135.17	131.65	TOTAL:	8.20	7.51
WINDWARD	25.21	14.10	-11.11						Manoa	0.17	
NORTH SHORE	4.08	3.64	-0.44			NUUANU #5			Palolo	0.19	
WAIHAWA	4.27	3.56	-0.71			(rainfall)	1.58"	2.57"	Waim. I&II	0.08	
WAIAANAE	4.34	4.75	0.41						Waim. III&IV	0.19	
EWA-KUNIA	15.88	9.90	-5.98						Waihee incl.	1.00	
PEARL HARBOR	92.66	73.24	-19.42						Waihee tun.	2.61	
TOTAL:	191.71	142.89	-48.82						Luluku	0.05	
									Haiku	0.06	
									Kahaluu	2.29	
									Waia. C&C	1.40	
									Waia plant.	0.16	

DROUGHT STATUS REPORT
DRAFT IN MGD

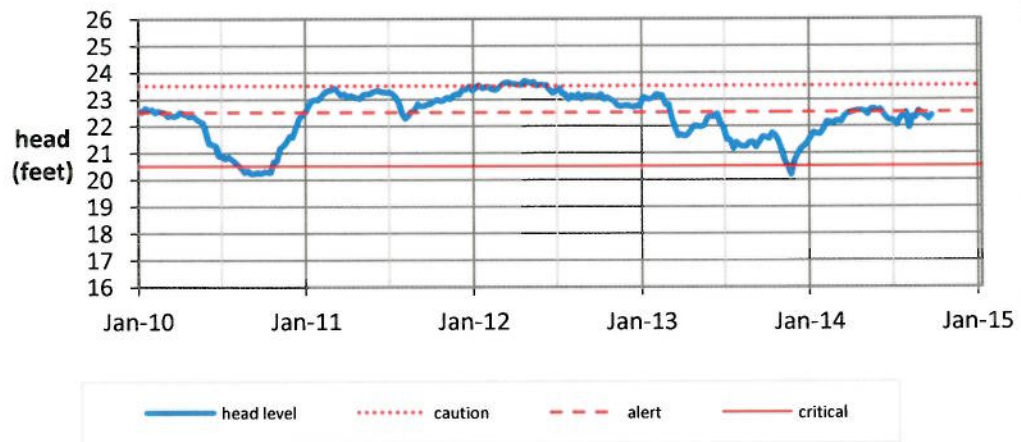
WATER USE DISTRICT	AUTHORIZED USE	2013	9/07-9/13 2014	2013	9/14-9/20 2014	2013	9/21-9/27 2014	2013	9/28-10/04 2014
HONOLULU	45.27	38.25	35.77	36.78	35.15	37.68	34.67	37.11	33.83
WINDWARD	25.21	14.93	14.08	14.95	13.91	12.57	14.38	13.39	13.96
NORTH SHORE	4.08	4.24	4.39	4.24	4.14	4.20	3.94	4.57	3.64
WAHIAWA	4.27	3.49	3.95	3.42	4.08	3.11	3.58	3.27	3.56
EWA-WAIAANAE	20.22	23.19	32.49	23.27	38.49	22.78	41.31	20.83	41.10
PEARL HARBOR	92.66	61.84	59.85	61.28	53.08	58.99	48.04	60.01	47.28
TOTAL	191.71	145.93	150.53	143.93	148.85	139.33	145.92	139.17	143.37

Accounts for in-district pumpage and transfers

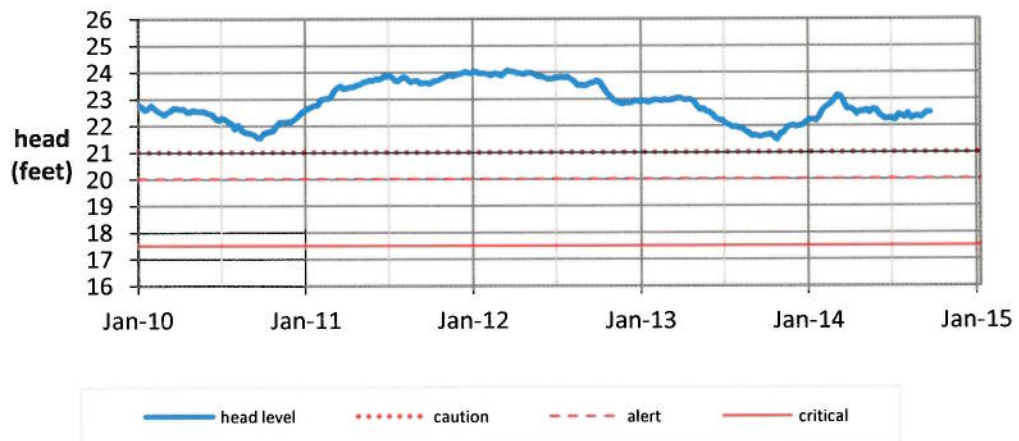
HEAD IN FEET

		2013	9/07-9/13 2014	2013	9/14-9/20 2014	2013	9/21-9/27 2014	2013	9/28-10/04 2014
HONOLULU									
KAIMUKI		21.21	22.45	21.40	22.37	21.60	22.26	21.59	22.40
BERETANIA		21.64	22.30	21.59	22.40	21.59	22.49	21.64	22.49
KALIHI		21.40	21.79	21.41	21.80	21.42	21.80	21.43	21.85
MOANALUA		18.49	19.00	18.54	18.78	18.53	18.68	18.62	18.73
PEARL HARBOR									
HALAWA		16.12	16.40	16.18	16.26	16.19	16.14	16.28	16.24
KALAUAO		16.72	16.95	16.76	16.88	16.78	16.81	16.77	16.84
PEARL CITY		14.38	14.63	14.42	14.59	14.44	14.56	14.44	14.58
WAIPAHU		17.83	18.06	17.85	18.08	17.86	18.20	17.96	18.26
KUNIA		18.15	18.39	18.12	18.39	18.10	18.51	18.29	18.57
EWA-WAIAANAE									
MAKAHA		7.88	13.18	8.41	13.06	8.86	12.98	9.28	12.85
WINDWARD									
PUNALUU		15.67	17.28	15.88	17.26	16.20	17.15	16.33	17.22
KALUANUI		15.73	17.06	15.75	17.01	15.92	16.00	16.06	16.93
NORTH SHORE									
WAIALUA		11.26	11.30	11.28	11.33	11.34	11.29	11.33	11.31

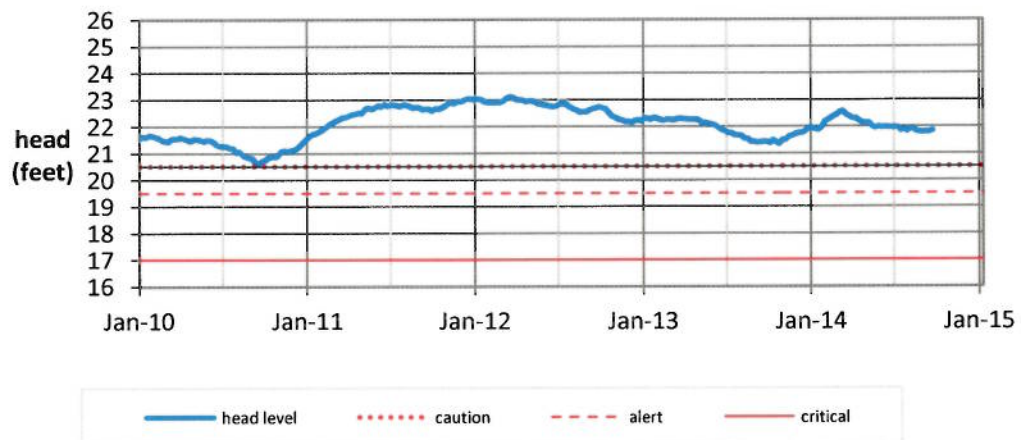
Kaimuki



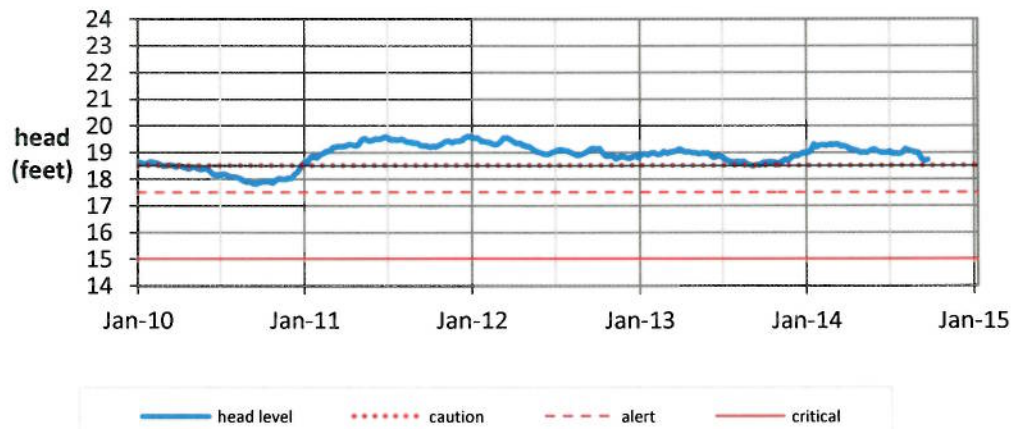
Beretania



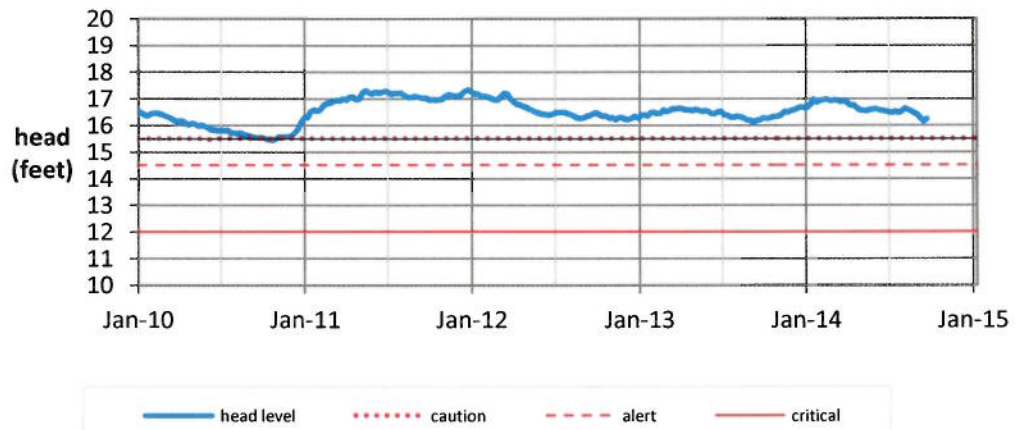
Kalihi



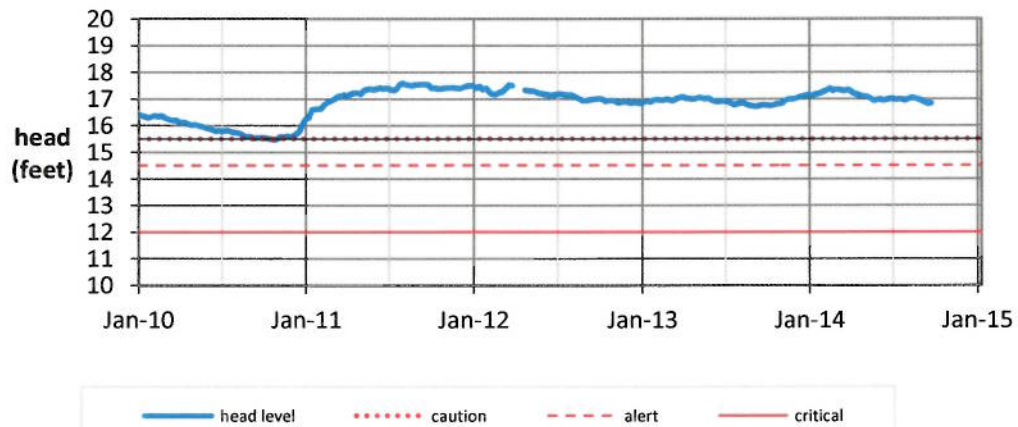
Moanalua



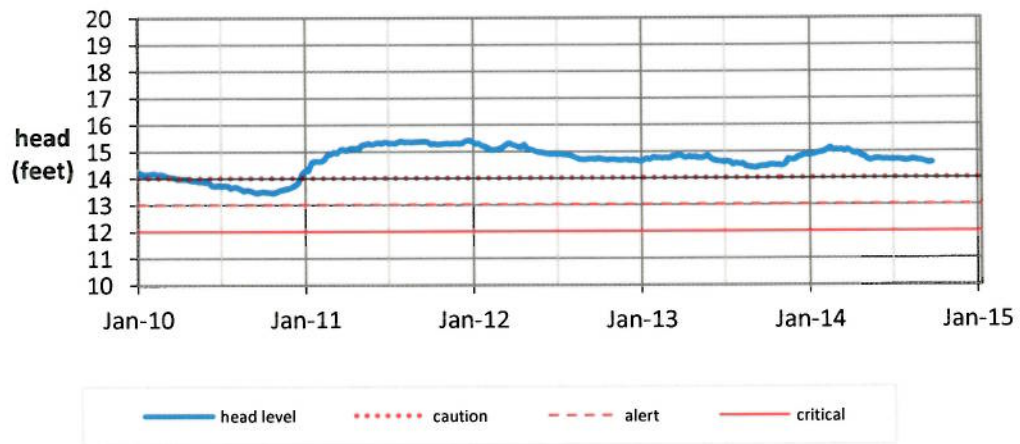
Halawa



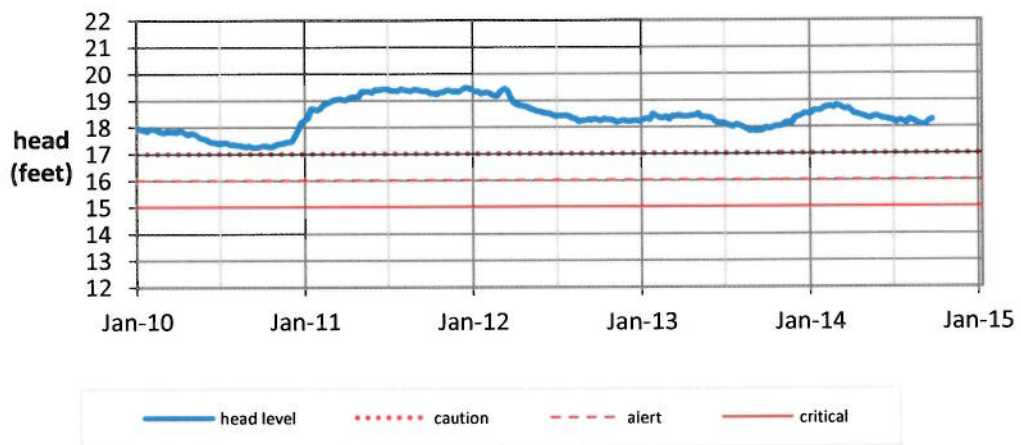
Kalauao



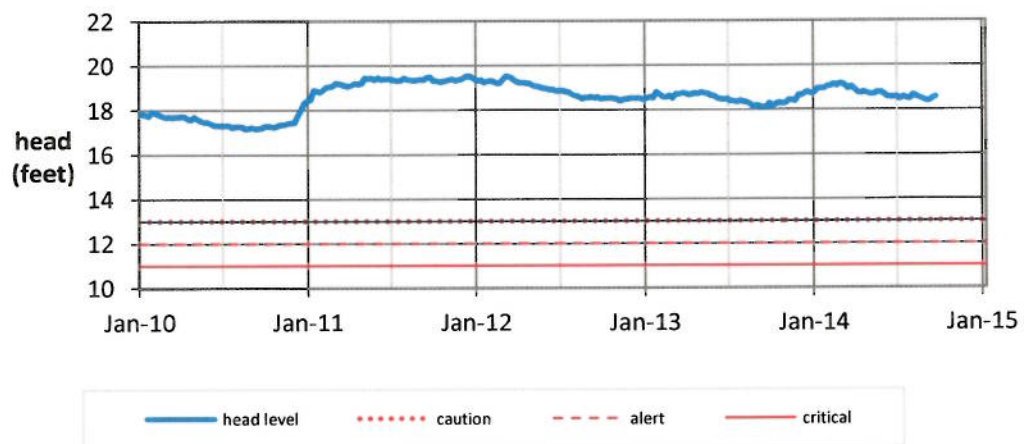
Pearl City



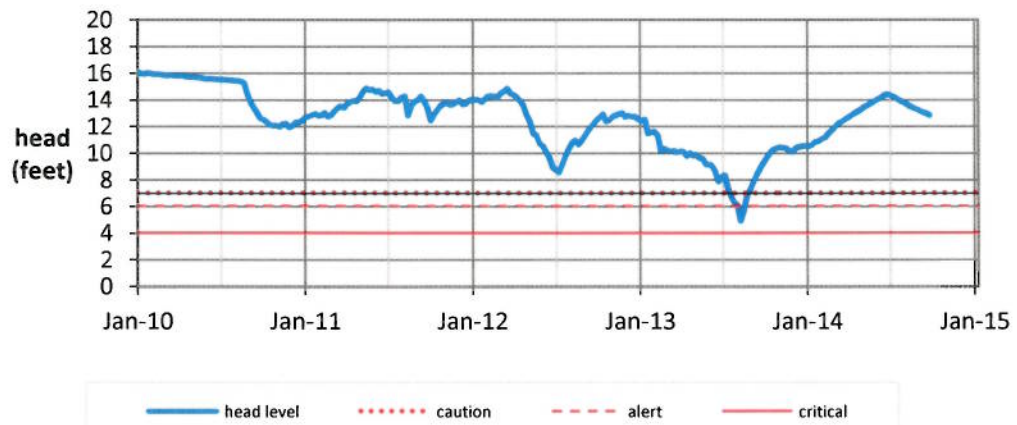
Waipahu



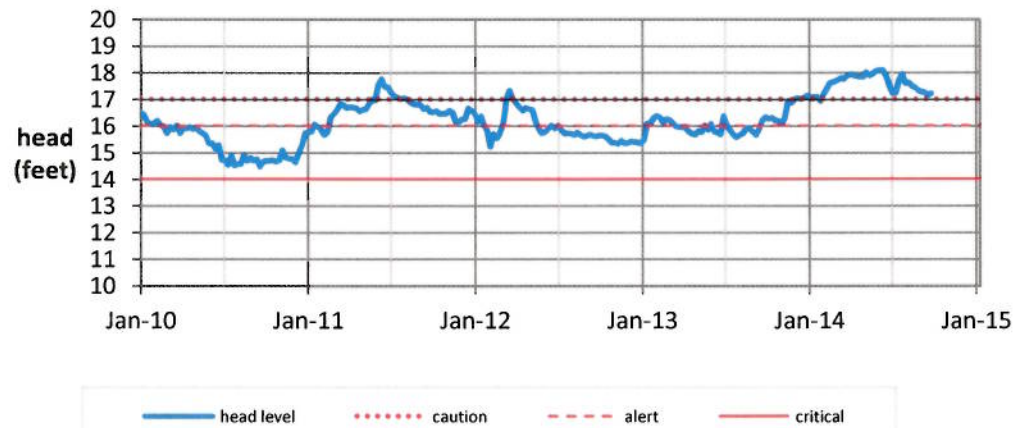
Hoeae-Kunia



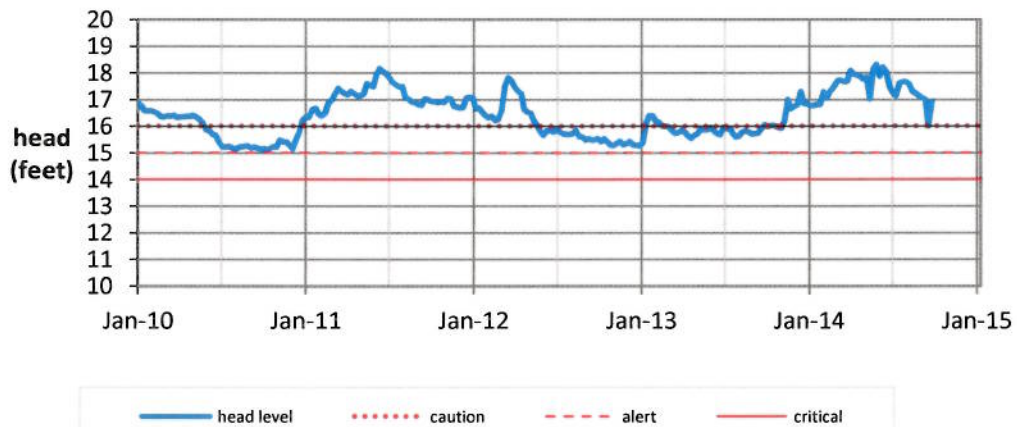
Makaha



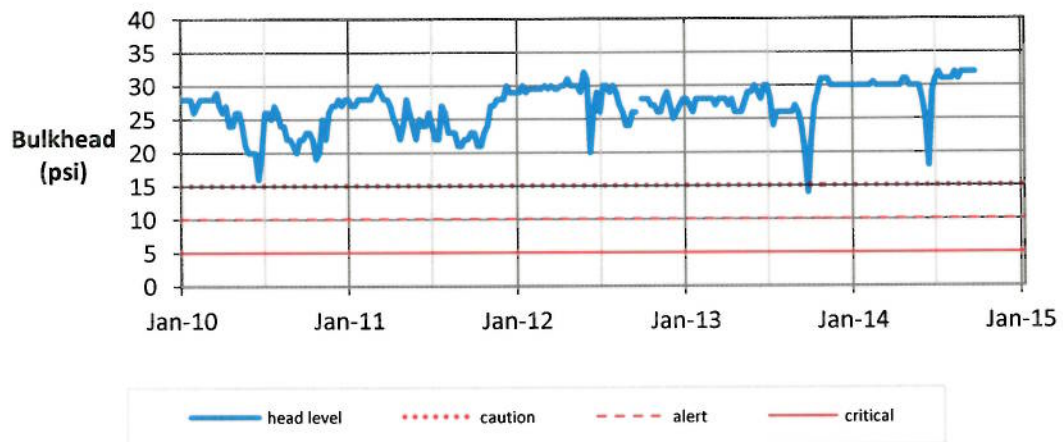
Punaluu



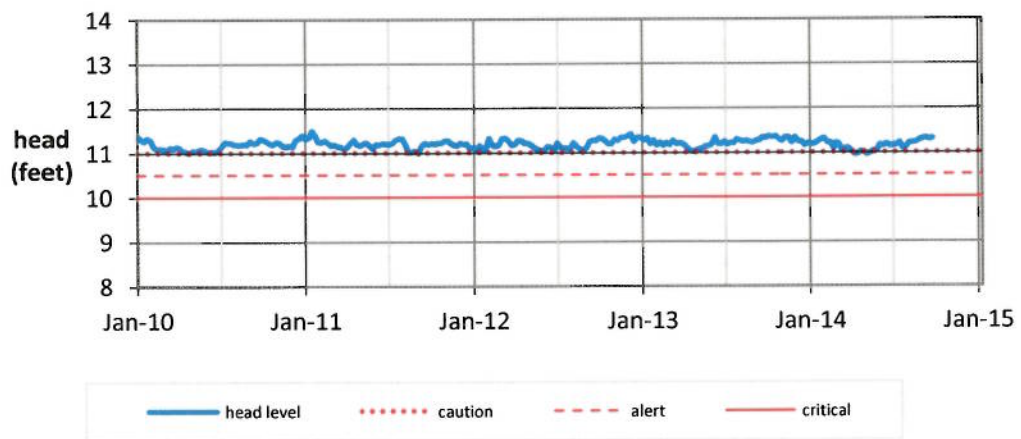
Kaluanui



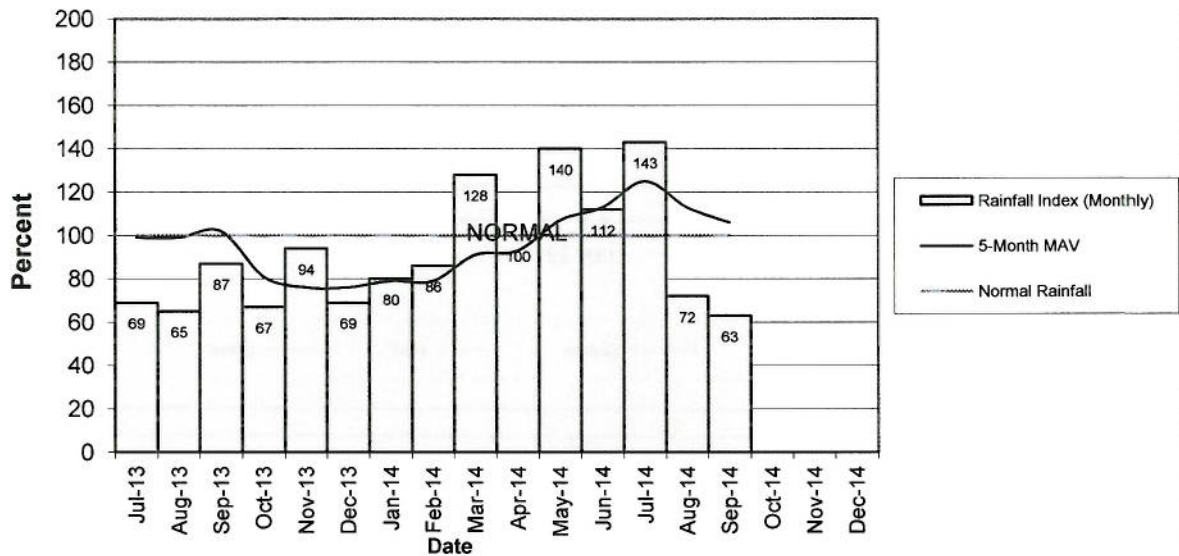
Waihee Tunnel



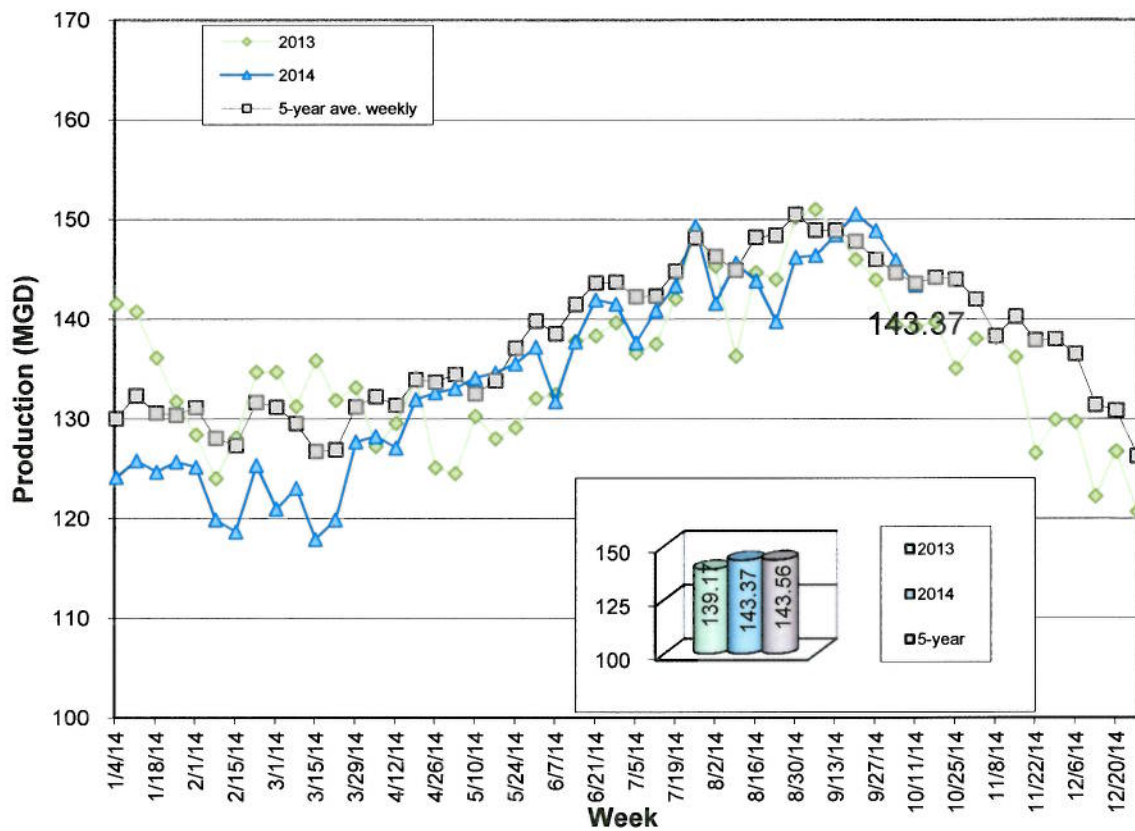
Waialua



HONOLULU WATERSHED AREA Rainfall Intake

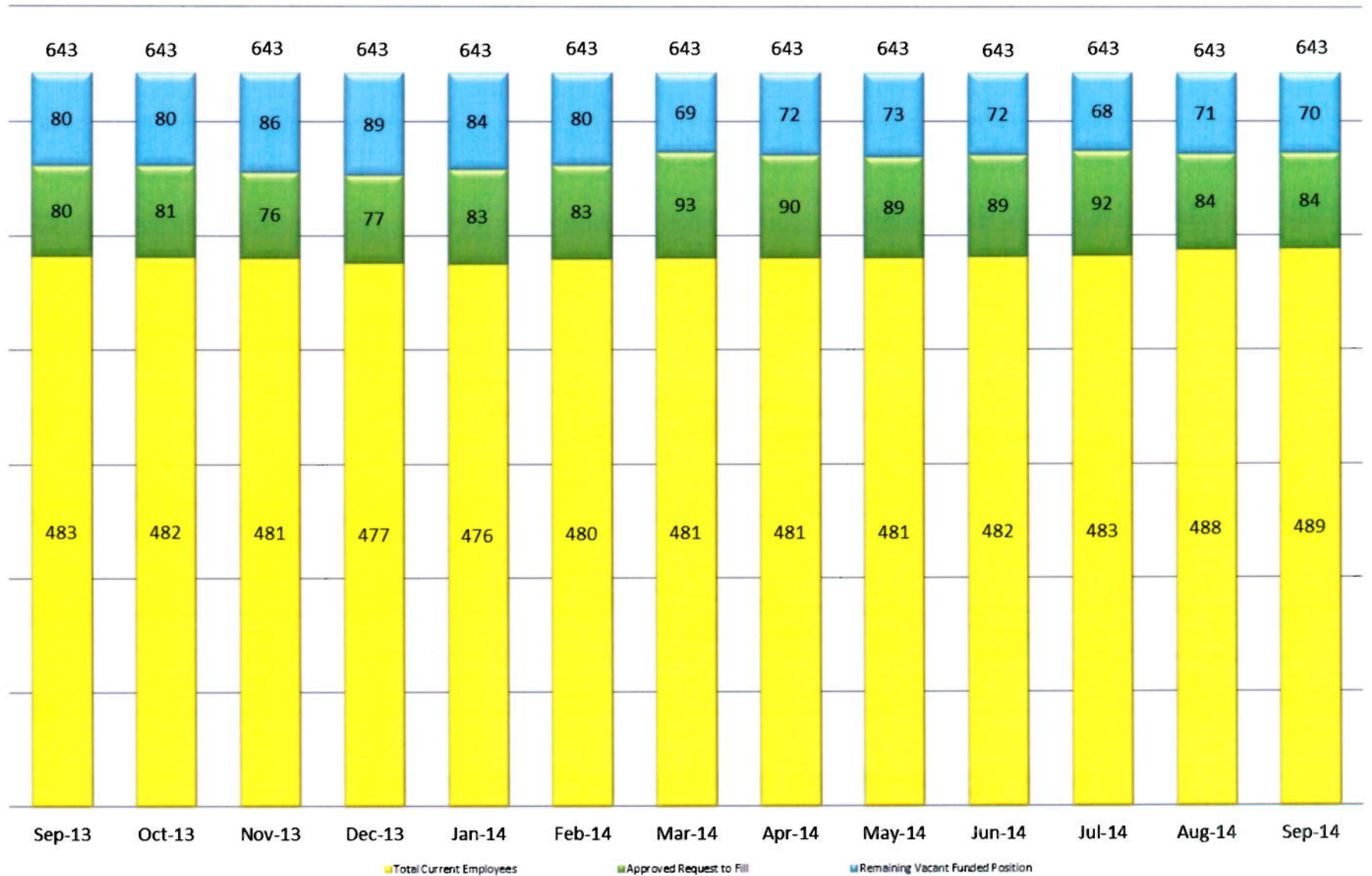


Weekly Production

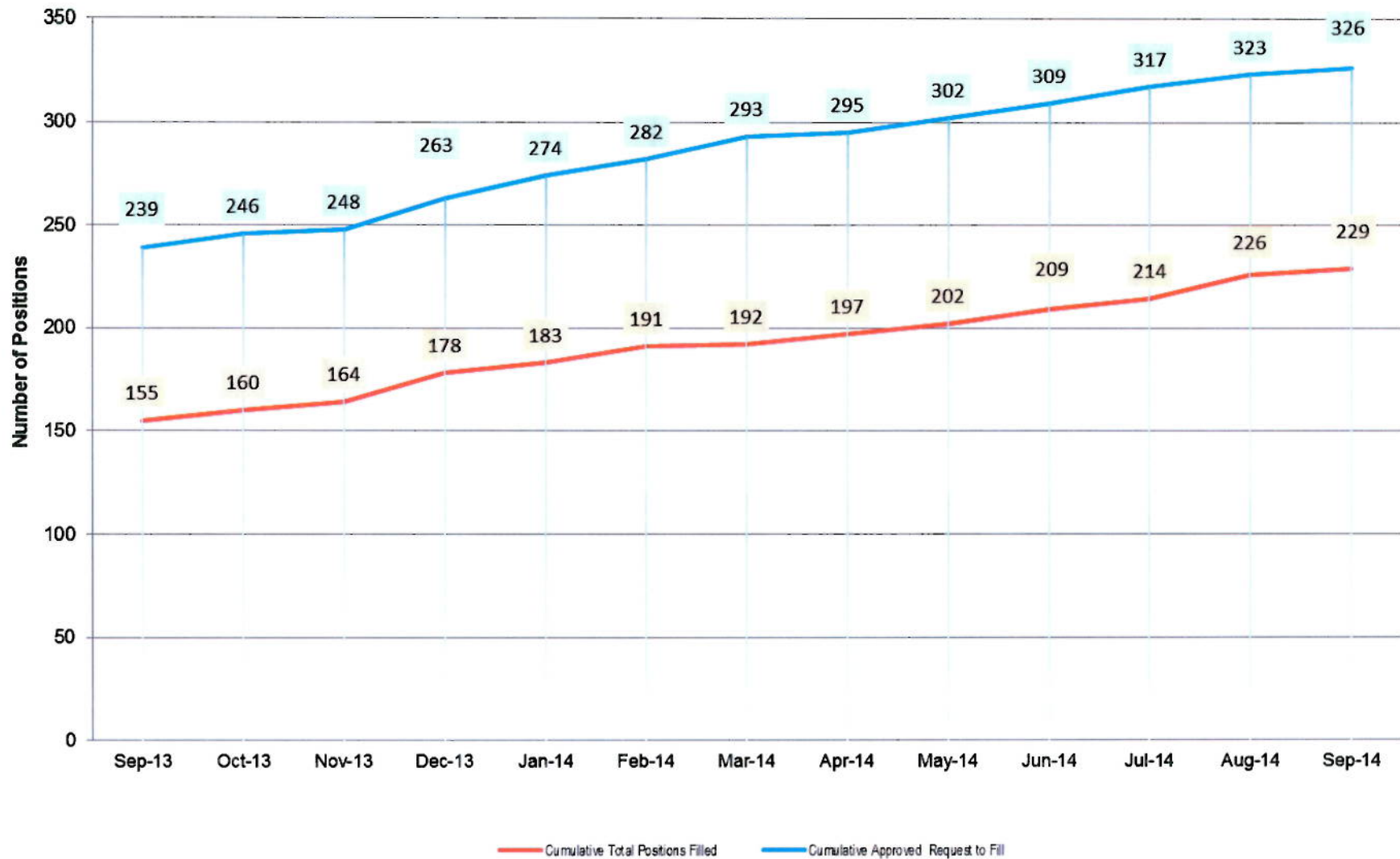


ITEM FOR INFORMATION NO. 5

Positions Filled September 1, 2013 through September 30, 2014



Cumulative Totals September 1, 2013 through September 30, 2014



DISCUSSION: Karen Tom of the Human Resources Office (HRO) gave the report. She added that HRO announced 13 internal recruitments for 20 positions and interviewed for 15 positions. BWS is waiting for the Department of Human Resources to provide them with four open competitive lists for four positions.

There were no comments or discussion

ITEM FOR INFORMATION NO. 5

"October 27, 2014

ENTERPRISE
ORGANIZATIONAL
STUDY

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

Chair and Members:

Subject: Enterprise Organizational Study

Deputy Manager Ellen Kitamura will give an update on the Enterprise Organizational Study.

Respectfully submitted,

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

Attachment"

The foregoing was for information only.

DISCUSSION: Deputy Manager Ellen Kitamura gave the update.

Ms. McMurdo commented that she is entering her 5th year of being on the Board and her understanding has been that 489 BWS employees was not a sufficient number to do all the work that needed to be done. She stated that the 2016 completion date for the Enterprise Organizational Study (Study) concerns her because it implies that there is not a sense of urgency in addressing the problem of filling vacancies. Mr. Lau explained that the Human Resources Office works hard to fill, recruit, interview, and select and fill positions. He mentioned that since he became the Manager in 2012, there have been 115 promotions within the BWS. There were a lot of supervisory and management positions that were vacant which allowed the Department to do internal recruitments. Now that many of those positions have been filled, the Department can begin to fill the non-supervisory vacancies. Recruitment is a very lengthy process, and the Study will help make it more efficient. Ms. Kitamura added that the purpose of the Study is to improve processes, but it doesn't mean that the work is not getting done. The Study will look at what the Department's optimal structure should be in order to get better.

Mr. Fuchigami acknowledged that BWS must have challenges like other state and county agencies with their yearly retirements. Mr. Lau agreed that BWS has an aging workforce with quite a few retirements each year. Ms. Kitamura shared that BWS has been successful in hiring some young, smart engineers and the development of the framework in succession and retention planning will look at how to retain these employees. Mr. Lau added

that this Study may give the BWS an opportunity to create an efficient utility for the future that is right-sized for the needs of the community. Ms. McMurdo stated that she agrees and understands, but if the amount of employees needed to do the work has changed, then that's something the Board needs to know. Ms. McMurdo asked that the Department accelerate the timeframe of the Study. Mr. Lau replied that they would.

BOARD OF WATER SUPPLY

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



October 27, 2014

KIRK CALDWELL, MAYOR

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

ROSS S. SASAMURA, Ex-Officio
FORD N. FUCHIGAMI, Ex-Officio

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

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

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

Chair and Members:

Subject: Enterprise Organizational Study Update

In August 2014, the Board of Directors adopted the 2014 – 2017 Strategic Plan for the Board of Water Supply. The plan described three overarching strategic goals: Resource Sustainability, Operational Sustainability and Financial Sustainability. Operational Sustainability identified a strategic goal to “foster a resilient and collaborative organization utilizing effective and proactive operational practices consistent with current industry practices.”

The Enterprise Organizational Study is the initial phase to analyze the current organizational structure and work processes; recommend improvements to increase operational and organizational efficiencies; and develop an implementation plan to establish the appropriate organizational structure, work processes, span of control, staffing levels, competencies and training program to carry out our mission of providing safe, dependable and affordable water to our customers now and into the future.

The proposed scope of work and schedule for this project is as follows:

Phase I – Data Collection and Current Organization Assessment

Project Duration: November 2014 – June 2015

Project Tasks:

- Assist with developing and analyzing “As-Is” process flow charts for the key business processes identified by Board of Water Supply (BWS) division heads and staff officers and understand how information is used in the organization for decision-making at the various levels.
- Survey and submit a report of organizational structures of other utilities similar to BWS.
- Develop and conduct an employee satisfaction survey and recommendations to improve employee morale.

- Develop a framework to assist the divisions and staff offices in succession, recruitment and retention planning.

Phase II – Recommendations for Organizational Improvements

Project Duration: July 2015 – June 2016

Project Tasks:

- Assist staff with the development of “To-Be” process flow charts for the key processes to improve operational and organizational efficiencies.
- Identify the optimal organizational structure, including span of control and staff levels for the BWS, based on current and future processes and workflows of the various divisions and staff offices and their interdependence.
- Identify the training needs to develop technical and interpersonal skills to support the current and transition to future work processes of the various divisions and staff offices.
- Recommend benchmarks and performance metrics to assess effectiveness of the operational practices, organizational structure, and employee development, career progression, and retention.
- Develop short and long term implementation plans to institute necessary organizational changes to improve operational efficiencies, employee satisfaction and employee recruitment and retention, including resource requirements (people, equipment, funding, etc.).
- Incorporate into the short and long term plans resource and scheduling requirements identified in the 30-Year Water Master Plan, Capital Projects and Water System Operations Program Management recommendations.

We are currently developing the requirements for this project and anticipate initiating the procurement for consultant services in January 2015. We have begun the data collection activities by requesting the division heads and staff offices to identify their key processes and will be creating “As-Is” workflow mapping for these key processes.

We will update the Board on the progress of the Enterprise Organizational Study with quarterly status reports.

Respectfully submitted,



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

ITEM FOR INFORMATION NO. 6

"October 27, 2014

FINANCIAL
UPDATE

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

Chair and Members:

Subject: Financial Update for the Quarter Ended September 30, 2014

The following Board of Water Supply's financial reports and graphs are attached:

- Budget vs Actual Revenue and Expense Totals
- Statement of Revenues, Expenses and Change in Net Assets
- Balance Sheet
- Budget vs Actual Appropriation Budget – Total BWS Summary
- Graph Representing Operating Expenditures by Category
- Graphs of Total Budgeted Operating Expenditures and Total Budgeted Operating Revenues

Respectfully submitted,

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

Attachments"

The foregoing was for information only.

DISCUSSION: Waterworks Controller Joe Cooper gave the presentation.

There were no comments or discussion.

Budget vs. Actual
Revenue and Expense Totals
As of September 30, 2014

	YTD Actuals	YTD Budget	Favorable/ (Unfavorable) Variance
Revenues	55,518,000	59,362,000	(3,844,000)
Operating Expenses	(39,047,000)	(43,632,000)	4,585,000
Net Revenues (expenditures)	16,471,000	15,730,000	741,000

Board Of Water Supply
Statement of Revenues, Expenses And Change In Net Assets
As of September 30, 2014

Current Month Actual	% Revenue	Last Year Actual	% Revenue	Description	Year to Date Actual	% Revenue	Last Year to Date Actual	% Revenue	% Change
REVENUE									
18,778,199.30	100.00	21,380,276.08	100.00	OPERATING REVENUE	54,809,022.73	100.00	53,136,456.89	100.00	3.15
18,778,199.30	100.00	21,380,276.08	100.00	REVENUE	54,809,022.73	100.00	53,136,456.89	100.00	3.15
OPERATING EXPENSES									
2,548,091.56-	13.57	2,453,706.65-	11.48	LABOR COSTS	7,942,512.63-	14.49	7,499,896.16-	14.11	5.90
851,455.57-	4.53	619,165.33-	2.90	SERVICES	1,963,622.76-	3.58	1,900,268.68-	3.58	3.33
216,316.84-	1.15	448,257.52-	2.10	SUPPLIES	751,499.17-	1.37	975,895.23-	1.84	22.99-
3,352.27-	.02	7,138.69-	.03	EDUCATION & TRAINING	20,804.00-	.04	7,835.19-	.01	165.52
3,342,881.70-	17.80	2,467,835.52-	11.54	UTILITIES	5,395,664.32-	9.84	5,060,411.32-	9.52	6.63
126,334.42-	.67	295,509.97-	1.38	REPAIR AND MAINTENANCE	278,403.35-	.51	470,486.09-	.89	40.83-
1,715,936.89-	9.14	2,554,988.00-	11.95	MISC	4,058,112.76-	7.40	4,944,675.00-	9.31	17.93-
1,292,325.38-	6.88	1,237,653.44-	5.79	RETIREMENT SYSTEM CONTRIBUTIO	2,773,110.37-	5.06	2,674,023.61-	5.03	3.71
60,115.91	.32	64,657.14-	.30	MISC EMPLOYEES' BENEFITS	71,202.13	.13	48,183.21	.09	47.77
10,036,578.72-	53.45	10,148,912.26-	47.47	OPERATING EXPENSES	23,112,527.23-	42.17	23,485,308.07-	44.20	1.59-
936,247.95-	4.99	95,489.10	.45	NON OPERATING REVENUE AND EXPE	2,289,218.13-	4.18	908,686.85-	1.71	151.93
1,481,377.96	7.89	254,363.39	1.19	CONTRIBUTION IN AID	4,172,108.66	7.61	2,059,848.05	3.88	102.54
2,609,622.93-	13.90	3,471,396.44-	16.24	OTHER EXPENSES	10,216,329.27-	18.64	10,199,663.02-	19.20	.16
6,677,127.66	35.56	8,109,819.87	37.93	Change In Net Assets	23,363,056.76	42.63	20,602,647.00	38.77	13.40

Board Of Water Supply
Balance Sheet
As of September 30, 2014

		***** Amounts *****		***** Change *****	
Description	Current	Last Month End	Last Year End	This Month	This Year
ASSETS					
CURRENT ASSETS	53,107,282.26	52,325,876.24	43,583,832.83	781,406.02	9,523,449.43
RESTRICTED ASSETS	2,835,838.83	1,316,538.35	15,871,669.73	1,519,300.48	-13,035,830.90
INVESTMENTS	230,076,318.68	227,253,281.22	220,305,587.35	2,823,037.46	9,770,731.33
OTHER ASSETS	9,995,458.10	10,033,922.17	8,972,982.66	-38,464.07	1,022,475.44
PROPERTY / PLANT	1,120,692,936.35	1,118,229,821.26	1,120,477,820.67	2,463,115.09	215,115.68
TOTAL ASSETS	<u>1,416,707,834.22</u>	<u>1,409,159,439.24</u>	<u>1,409,211,893.24</u>	<u>7,548,394.98</u>	<u>7,495,940.98</u>
LIABILITIES					
CURRENT LIABILITIES	11,977,190.33	11,808,627.92	31,259,856.70	168,562.41	-19,282,666.37
OTHER LIABILITIES	26,119,440.07	26,207,737.67	26,731,427.57	-88,297.60	-611,987.50
BONDS PAYABLE, NONCURRENT	287,642,583.67	286,851,581.16	283,615,045.58	791,002.51	4,027,538.09
LIABILITIES	<u>325,739,214.07</u>	<u>324,867,946.75</u>	<u>341,606,329.85</u>	<u>871,267.32</u>	<u>-15,867,115.78</u>
NET ASSETS					
RETAINED EARNINGS	319,267,966.48	318,809,832.11	312,613,914.46	458,134.37	6,654,052.02
FUND BALANCE	594,633,831.66	594,633,831.66	594,633,831.66	0.00	0.00
RESERVE FOR ENCUMBRANCES	157,171,033.09	157,629,167.46	163,825,085.11	-458,134.37	-6,654,052.02
CURRENT YEAR CHANGES TO FU	19,895,788.92	13,218,661.26	-3,467,267.84	6,677,127.66	23,363,056.76
NET ASSETS	<u>1,090,968,620.15</u>	<u>1,084,291,492.49</u>	<u>1,067,605,563.39</u>	<u>6,677,127.66</u>	<u>23,363,056.76</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1,416,707,834.22</u>	<u>1,409,159,439.24</u>	<u>1,409,211,893.24</u>	<u>7,548,394.98</u>	<u>7,495,940.98</u>

Budget vs Actual Appropriation Budget - Total BWS Summary

(\$000's)

CIFIS 15820-3021

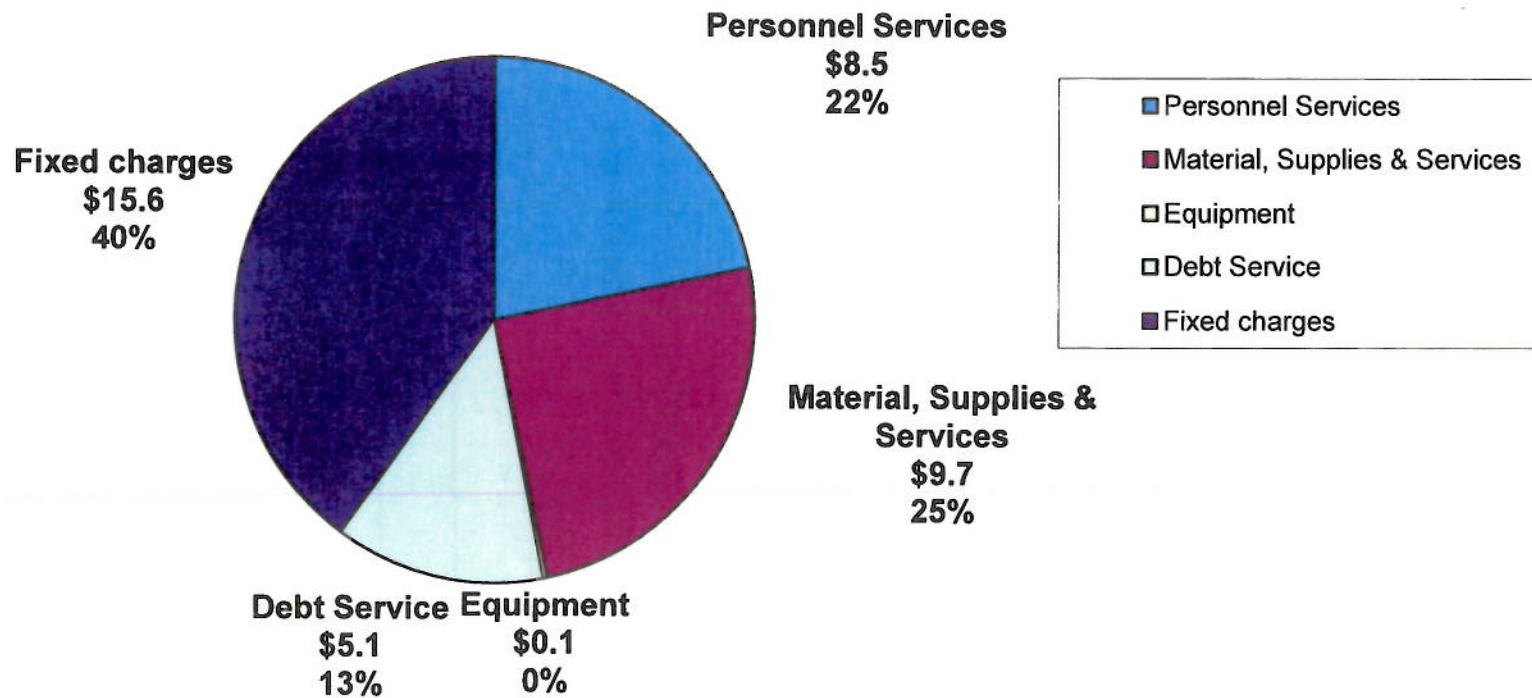
AS OF 9/30/2014

OPER UNIT ALL

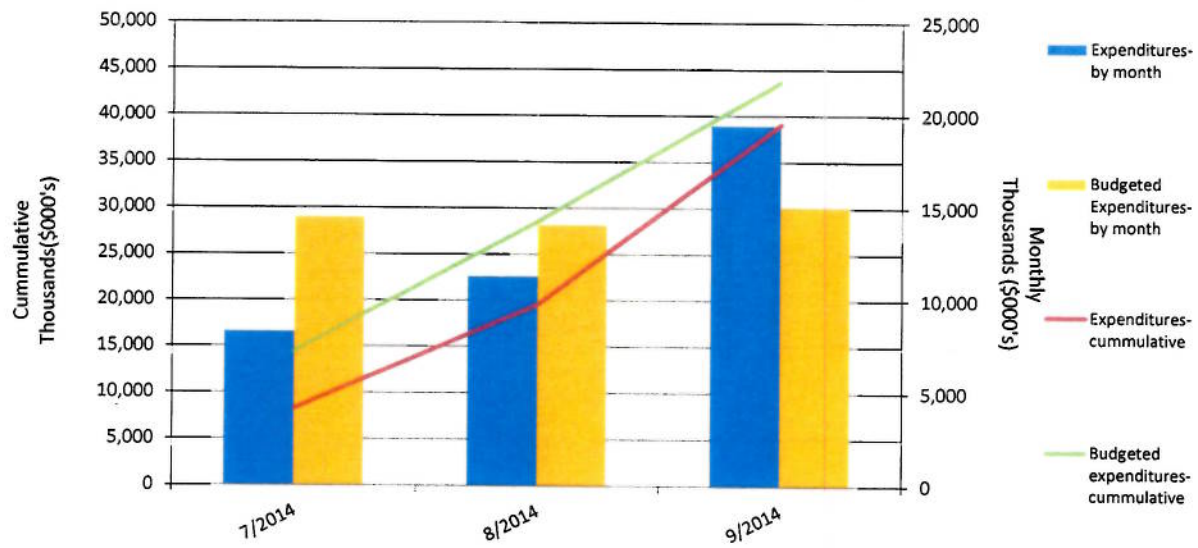
BUSINESS UNIT ALL

YTD-TO-DATE				FOR THE FISCAL YEAR					
YTD Actuals	YTD Budget	Avail/ (Over)	%	Object Description	Revenues/ Expend	Open Encumb	Annual Budget	Avail/ (Over)	%
<u>55,518</u>	<u>59,362</u>	<u>3,844</u>	<u>6.48</u>	<u>REVENUE</u>	<u>55,518</u>		<u>217,633</u>	<u>162,115</u>	<u>74.49</u>
OPERATING EXPENSES:									
8,511	10,694	2,183	20.41	Personnel Services	8,511		43,931	35,420	80.63
MATERIALS AND SUPPLIES									
4,317	5,229	912	17.44	Services	1,440	2,877	19,645	15,328	78.02
1,862	2,906	1,044	35.93	Supplies	948	914	13,015	11,153	85.69
68	164	96	58.54	Education & Training	68		566	498	87.99
	3	3	100.00	Utilities			12	12	100.00
306	653	347	53.14	Repairs & Maint	231	75	5,133	4,827	94.04
3,157	2,866	(291)	10.15-	Misc	2,455	702	11,921	8,764	73.52
105	741	636	85.83	Equipment		105	3,557	3,452	97.05
5,134	5,801	667	11.50	Debt Service	5,134		23,205	18,071	77.88
FIXED CHARGES:									
7,526	8,203	677	8.25	Utilities	7,526		32,813	25,287	77.06
825	825			Case Fees	825		3,300	2,475	75.00
1,948	1,902	(46)	2.42-	Retirement System Contribution	1,948		7,608	5,660	74.40
5,288	3,645	(1,643)	45.08-	Misc Employees' Benefits	3,813	1,475	14,579	9,291	63.73
<u>39,047</u>	<u>43,632</u>	<u>4,585</u>	<u>10.51</u>	<u>TOTAL OPERATING EXPENDITURES</u>	<u>32,899</u>	<u>6,148</u>	<u>179,285</u>	<u>140,238</u>	<u>78.22</u>
<u>16,471</u>	<u>15,730</u>	<u>(741)</u>		<u>NET REVENUES (EXPENDITURES)</u>	<u>22,619</u>	<u>(6,148)</u>	<u>38,348</u>	<u>21,877</u>	

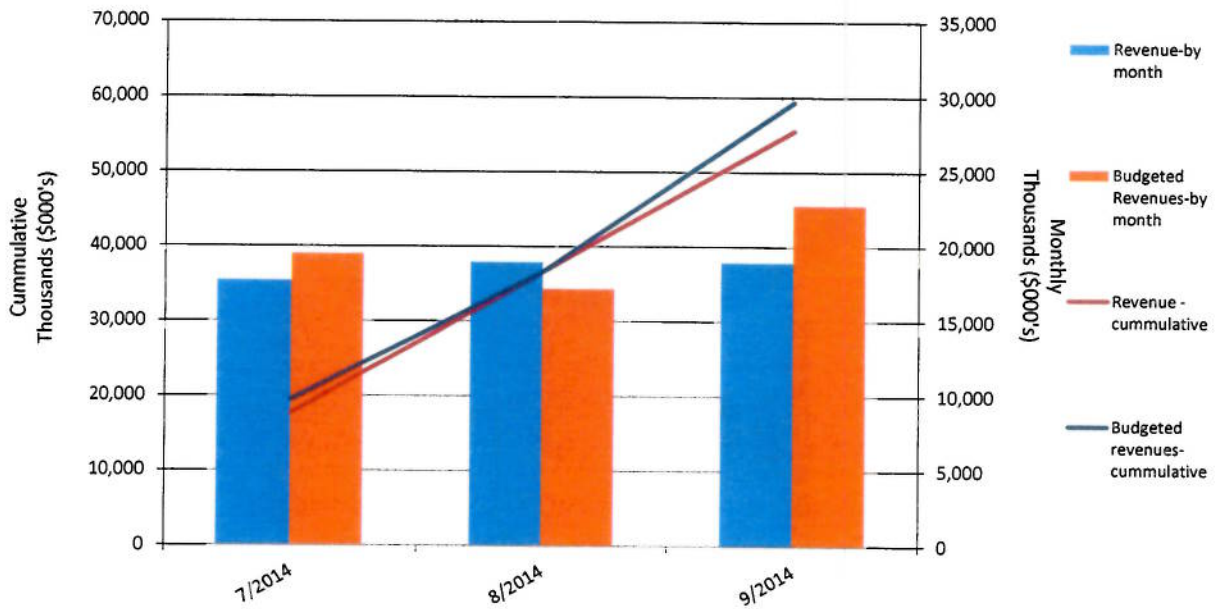
Total Operating Expenditures - \$39.0
As of September 30, 2014
(millions of dollars)



BUDGETED OPERATING EXPENDITURES FY 2015



BUDGETED OPERATING REVENUES FY 2015



WATER FOR LIFE

Safe, dependable, and affordable water now and into the future



Board of Water Supply
City and County of Honolulu

Financial Performance

July 2014 – Sept. 2014





Budget to Actual July 2014 – Sept. 2014

- Actual Revenue \$56 million vs.
Budgeted Revenue \$59 million
- Operating costs are \$39 million
- Actual Net Revenue \$16 million vs.
Budgeted Net Revenue \$16 million





Cost Drivers

Year to Date Sept. 2014

	Actual (millions)	Budget (millions)
• Personnel	\$8.5	\$10.7
• Services	\$4.3	\$ 5.2
• Repairs & Maint.	\$0.3	\$ 0.7
• Equipment	\$0.1	\$ 0.7
• Utilities	\$7.5	\$ 8.2

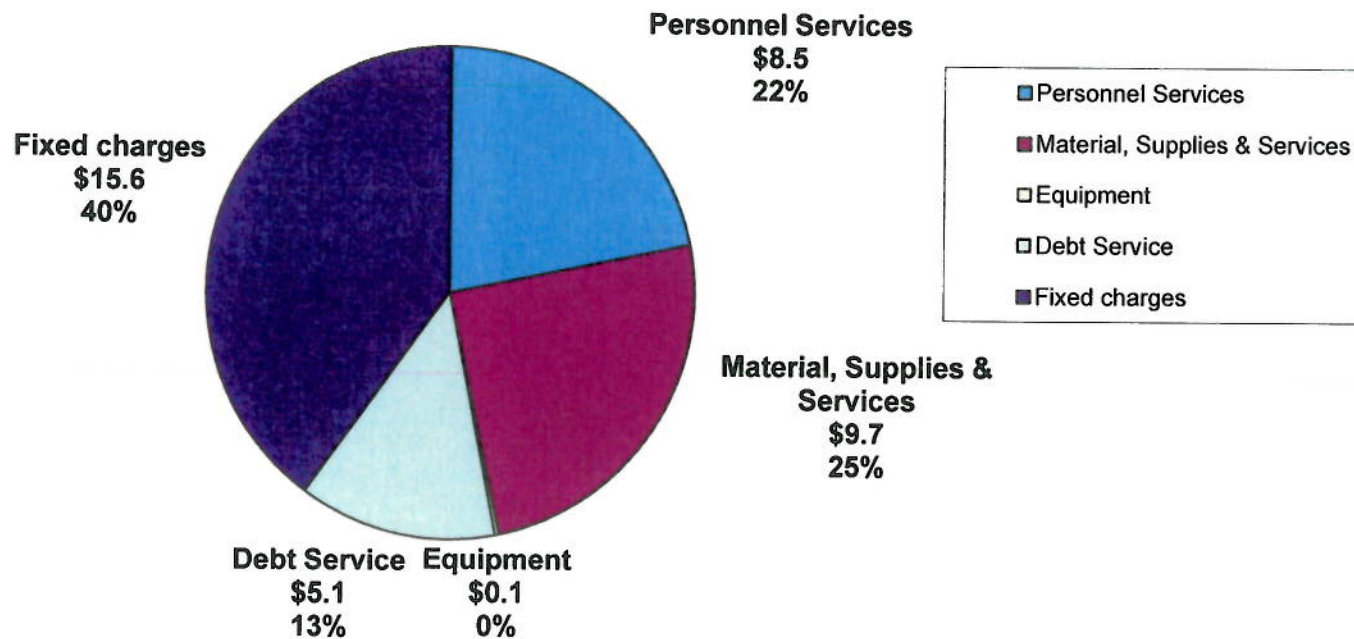
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Board of Water Supply
City and County of Honolulu

Total Operating Expenditures - \$39.0
As of September 30, 2014
(millions of dollars)



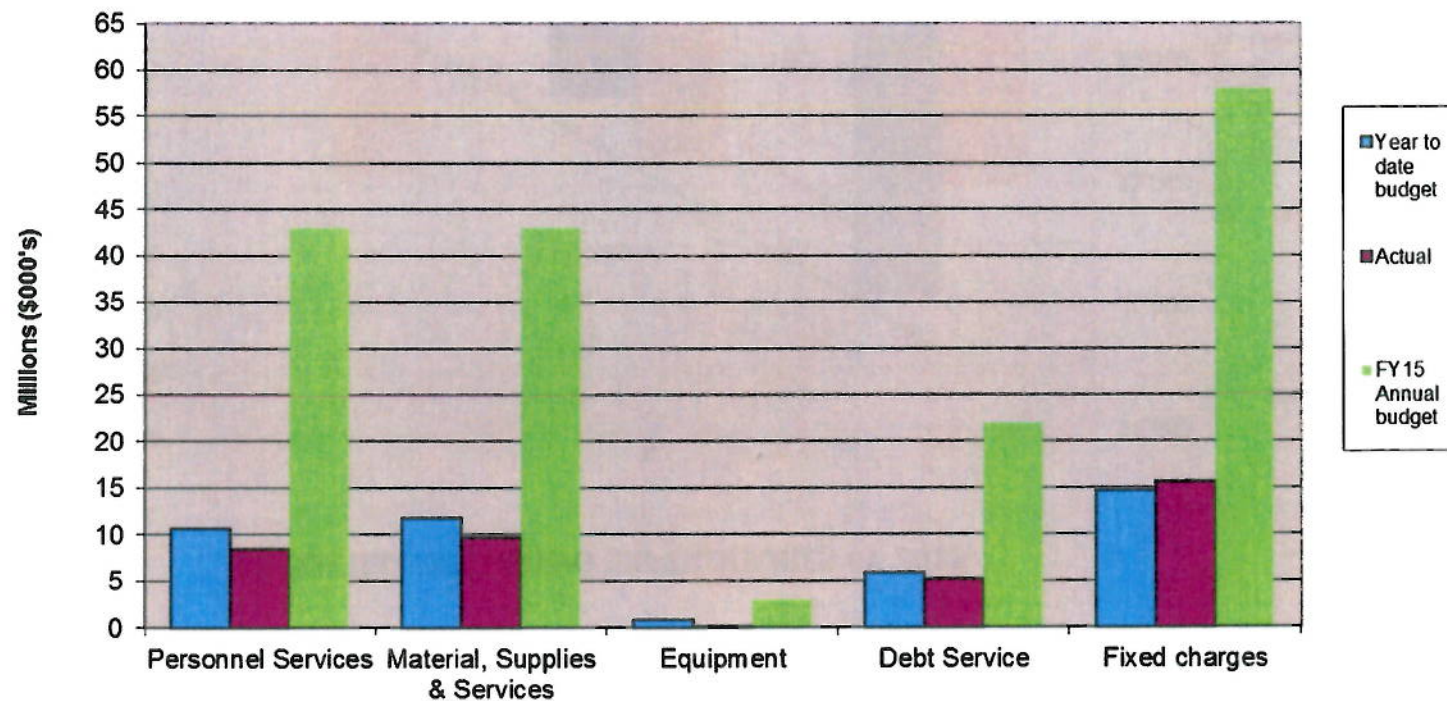
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Safe, dependable, and affordable water now and into the future



Board of Water Supply
City and County of Honolulu

Operating Expenditures by Category (Budget vs. Actual Expenditures and Encumbrances)
as of September 30, 2014 (millions of dollars)



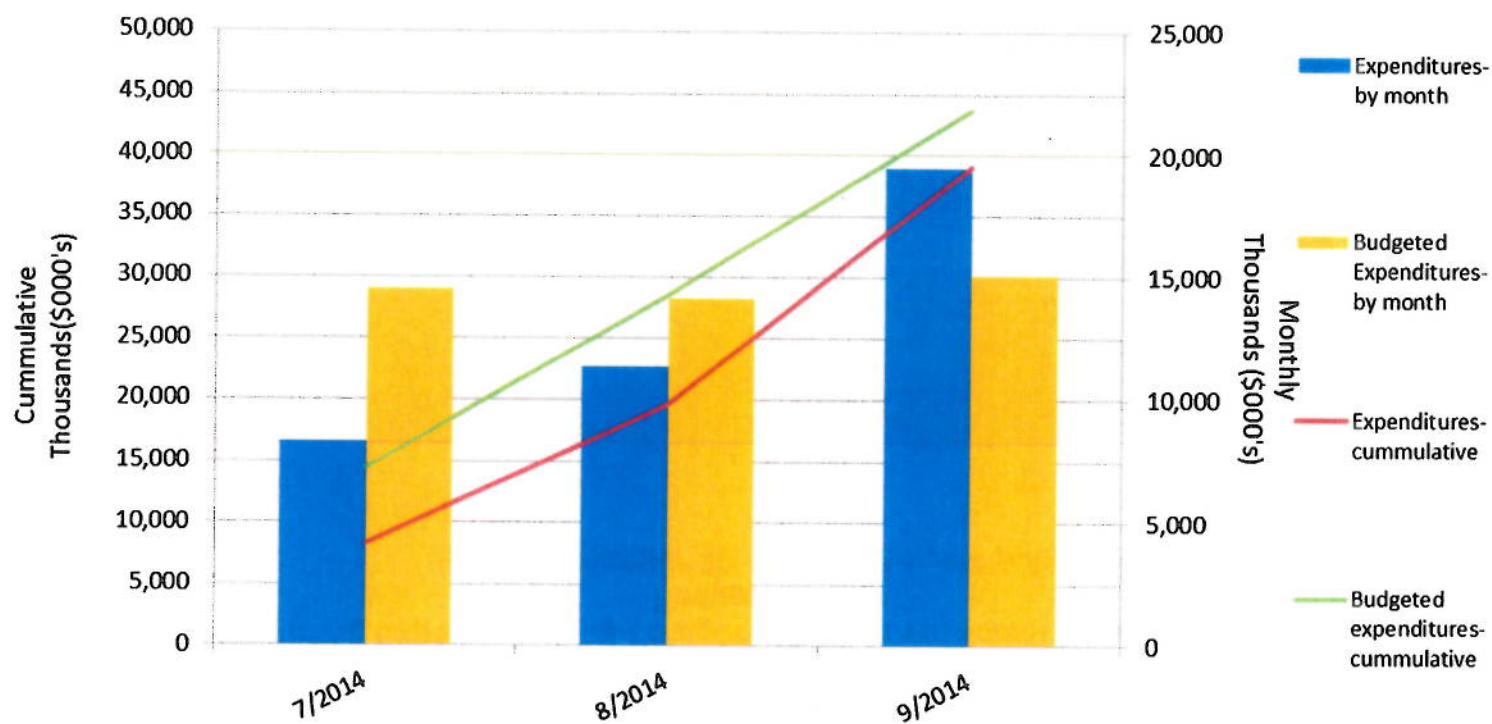
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Board of Water Supply
City and County of Honolulu

BUDGETED OPERATING EXPENDITURES FY 2015



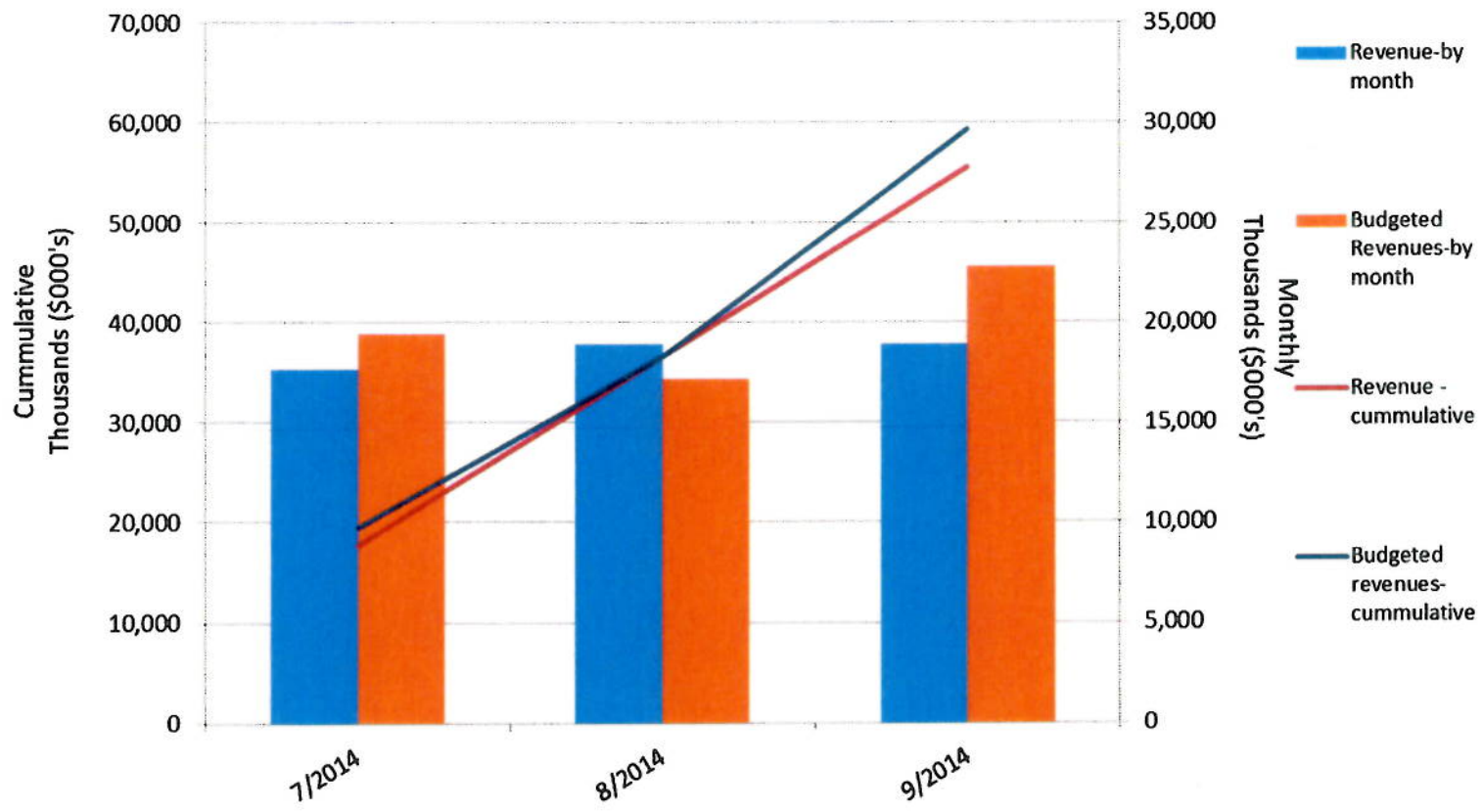
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Board of Water Supply
City and County of Honolulu

BUDGETED OPERATING REVENUES FY 2015



WATER FOR LIFE

Safe, dependable, and affordable water now and into the future



Board of Water Supply
City and County of Honolulu

Questions or Comments



ITEM FOR INFORMATION NO. 7

"October 27, 2014

FINANCIAL
STATEMENTS
AND
SUPPLEMENTARY
INFORMATION

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

Chair and Members:

Subject: Financial Statements and Supplementary Information With
Independent Auditors' Report, Fiscal Years Ended
June 30, 2014 and 2013

The Board of Water Supply (BWS) is required under Article VII, Section 7-108 of the Revised Charter to be annually audited by an independent auditor. The draft audit report has been completed by Accuity LLP.

In their single audit report, the auditor has submitted a Management Letter to the BWS that discloses an IT audit finding that has resulted in a significant deficiency. We have reviewed their finding and will respond with a Corrective Action Plan that will be incorporated into the final audit report.

Enclosed for your information are the draft annual reports. Other than the addition of the Corrective Action Plan, we expect to finalize them as presented to the Board of Directors.

Cindy Yee and Chris Ichiki from Accuity LLP will present highlights from the auditors' draft report.

Respectfully submitted,

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

Attachments"

The foregoing was for information only.

DISCUSSION:

Mr. Lau stated that the auditor submitted a management letter to BWS that disclosed an Information Technology (IT) audit finding that resulted in a significant deficiency. The final and corrective action plan was distributed today to the Board Members and will be incorporated into the final audit report.

Cindy Yee and Chris Ichiki from Accuity LLP gave their presentation.

Information Technology Program Administrator Henderson Nuuhiwa briefed the Board on the corrective action plan on the IT audit finding that resulted in a significant deficiency. He stated that last year's report centered around

two main areas which were logical security and change management. Because the issues were addressed at the end of the fiscal year, it remained exposed for the duration of the period which the audit was in place, which is why it they were flagged as significant findings. All issues have been addressed except for one which is scheduled to be completed in the second quarter of this year.

Ms. McMurdo asked what change management means. Mr. Nuuhiwa explained that these are issues in managing the change in upgrade on the program management side, which have been addressed. Ms. McMurdo asked which item has not been addressed yet. Mr. Nuuhiwa explained that they didn't have time to do a full detailed review of the security access user roles and responsibilities. This is something that's done on a periodic basis; however it wasn't done in order to satisfy the audit. Mr. Nuuhiwa informed Ms. McMurdo that this should be corrected by the end of the second quarter of this year. Mr. Nuuhiwa responded to Mr. Miyashiro's inquiry stating that this issue primarily focused on internal user access and that the auditor did not do an extensive review on external security. Ms. McMurdo inquired if the absence of an external review was not a concern. Mr. Lau replied that there is concern about cyber security and that some actions are being taken, but they are currently in the procurement and recruitment process to address cyber security.

Ms. McMurdo requested an update on the external security when the Department is ready.

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

Board of Water Supply City and County of Honolulu Index

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Introduction

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

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

Organization and Business

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

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

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

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

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

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

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

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

Mission

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

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

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

Looking Ahead

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

1. Resource Sustainability (Safe)

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

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

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

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

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

2. Organizational Sustainability (Dependable)

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

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

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

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

3. Economic Sustainability (Affordable)

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

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

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

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

Report of Independent Auditors

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Other Matters**Required Supplementary Information**

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

Other Information

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

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

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

Change in Accounting Principle

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014 on our consideration of the BWS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BWS's internal control over financial reporting and compliance.

Honolulu, Hawaii
October 24, 2014

Management's Discussion and Analysis

Board of Water Supply

City and County of Honolulu

Management's Discussion and Analysis

June 30, 2014 and 2013

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

Financial Highlights

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

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

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

Overview of Financial Report

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

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

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

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

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

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

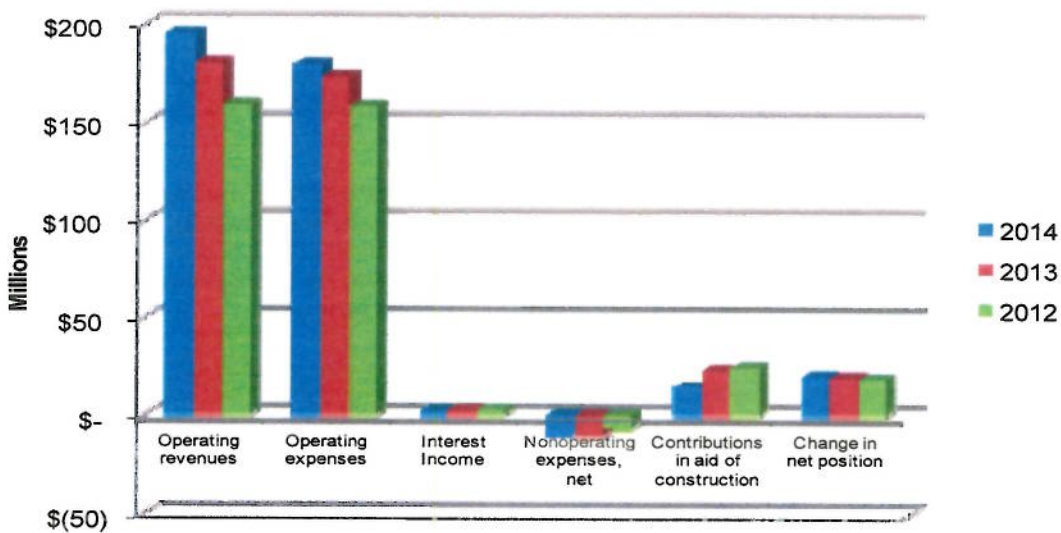
commitments, contingencies, and other significant events. Required supplementary information on post-employment benefits other than pensions and supplementary information for outstanding bonds and net revenue requirements are also included.

Results of Operations

Condensed Statements of Revenues, Expenses and Change in Net Position

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

Statements of Revenues, Expenses and Change in Net Position



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

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

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

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

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

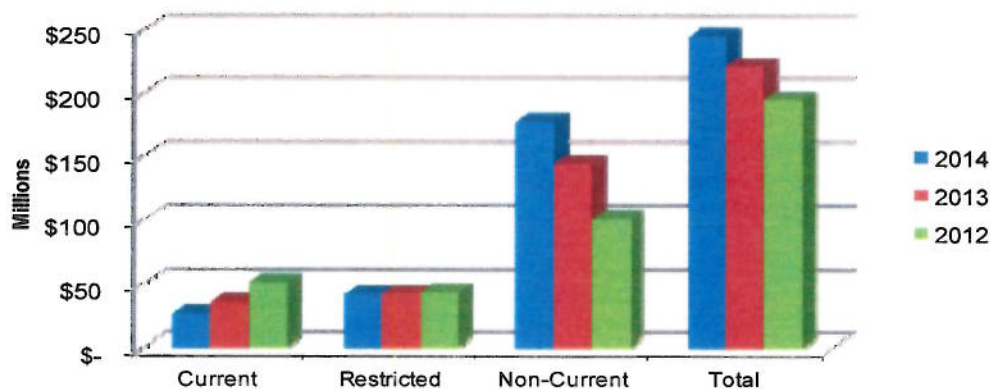
**Board of Water Supply
City and County of Honolulu
Management's Discussion and Analysis
June 30, 2014 and 2013**

Financial Condition

Condensed Statements of Net Position

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

Cash and Investments



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

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

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

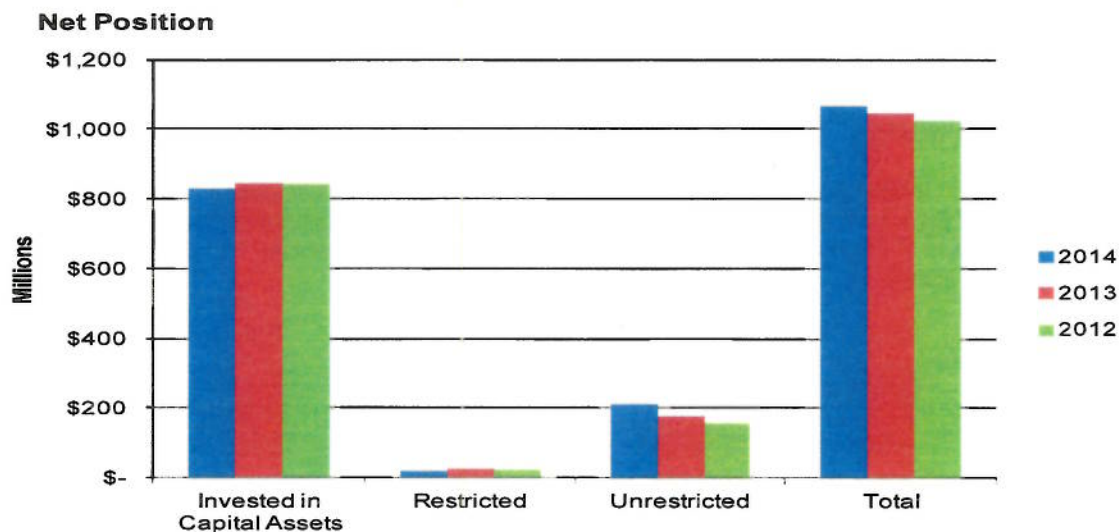
As of June 30, 2014 and 2013, capital assets, net decreased by \$18.0 million and \$7.9 million, respectively. The decreases in fiscal year 2014 and 2013 were due to construction work in progress charge-offs and depreciation charges exceeding acquisitions.

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

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

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

Net position increased by \$21.1 million and \$19.9 million as of June 30, 2014 and 2013, respectively. The increases were primarily due to an increase in operating revenue.



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

Capital Assets and Long-Term Debt

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

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

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

Rate Covenant

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

Currently Known Facts, Decisions or Conditions

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

Request for Information

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

Financial Statements

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

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

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

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

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

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

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

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

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

**Board of Water Supply
City and County of Honolulu
Statements of Cash Flows
Years Ended June 30, 2014 and 2013**

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

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

**Board of Water Supply
City and County of Honolulu
Statements of Cash Flows
Years Ended June 30, 2014 and 2013**

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

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

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

1. Operations

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

2. Summary of Significant Accounting Policies

Financial Statement Presentation, Measurement Focus and Basis of Accounting

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

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

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

Use of Estimates

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

Regulation and Water Rates

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

Cash and Cash Equivalents

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

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Investments

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

Receivables

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

Materials and Supplies

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

Restricted Assets

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

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

Capital Assets

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

Major replacements, renewals, and betterments are capitalized. Interest costs are capitalized during the construction period of major capital projects. Interest costs incurred in the years ended June 30, 2014 and 2013 totaled \$12,974,750 and \$13,281,328, respectively. Capitalized interest costs totaled \$814,252 and \$1,053,169 for the years ended June 30, 2014 and 2013, respectively. The BWS also capitalizes certain indirect costs to construction work based upon actual construction direct labor. Maintenance, repairs and replacements that do not improve or extend the lives of the assets are charged to expense.

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

The estimated useful lives of capital assets are as follows:

Source of supply	20 to 100 years
Pumping plant	20 to 50 years
Water treatment plant	20 to 30 years
Transmission and distribution plant	13½ to 50 years
General plant	5 to 50 years

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

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

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

Accrued Vacation and Compensatory Pay

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

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

As of June 30, 2014 and 2013, accumulated sick leave aggregated approximately \$18,240,000 and \$17,430,000, respectively. Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 or more unused sick days is entitled to additional service credit in the State of Hawaii's Employees' Retirement System.

Water System Facilities Charge

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

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Net Position

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

Revenue Recognition

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

Contributions in Aid of Construction

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

Pension Expense

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

Deferred Compensation Plan

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

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

Risk Management

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

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The ranges of insurance limits and deductibles are as follows:

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

New Accounting Pronouncements

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

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

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

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

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

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3. Cash and Investments

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

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

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

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

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

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

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

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

4. Restricted Assets

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

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

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5. Capital Assets

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

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

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

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6. Bonds Payable

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

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

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

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

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

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

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

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

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

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

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

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7. Notes Payable

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

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

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

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

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

8. Other Long-Term Liabilities

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

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Customer advances	\$ 894,125	\$ 35,607	\$ -	\$ 929,732	\$ -
Accrued vacation	6,506,357	2,831,538	(2,666,607)	6,671,288	2,666,607
Accrued workers' compensation	2,305,822	887,485	(1,141,781)	2,051,526	-
Other postemployment benefits	460,450	8,981,000	(9,441,450)	-	-
Accrued arbitrage rebate liability	48,873	17,015	-	65,888	-
Other	2,134,881	350,432	(1,140,326)	1,344,987	-
	<u>\$ 12,350,508</u>	<u>\$ 13,103,077</u>	<u>\$ (14,390,164)</u>	<u>\$ 11,063,421</u>	<u>\$ 2,666,607</u>

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Customer advances	\$ 1,387,908	\$ -	\$ (493,783)	\$ 894,125	\$ -
Accrued vacation	6,221,614	1,749,033	(1,464,290)	6,506,357	1,464,290
Accrued workers' compensation	2,393,549	1,211,800	(1,299,527)	2,305,822	-
Other postemployment benefits	12,000	8,681,000	(8,232,550)	460,450	-
Accrued arbitrage rebate liability	48,873	-	-	48,873	-
Other	2,330,845	134,034	(329,998)	2,134,881	-
	<u>\$ 12,394,789</u>	<u>\$ 11,775,867</u>	<u>\$ (11,820,148)</u>	<u>\$ 12,350,508</u>	<u>\$ 1,464,290</u>

**Board of Water Supply
City and County of Honolulu
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9. Net Position

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

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

10. Leases

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

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

**Board of Water Supply
City and County of Honolulu
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The future minimum rental payments and sublease income from these operating leases at June 30, 2014 were as follows:

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

11. Related Party Transactions

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

The BWS has an agreement with the City to pay a Central Administrative Services Expense ("CASE") fee for treasury, personnel, purchasing and other services that the City provides to the BWS on an on-going basis. The BWS's Charter allows for CASE fees to the extent that it represents a reasonable charge for services necessary for the BWS to perform its duties. CASE fees incurred during the years ended June 30, 2014 and 2013 totaled \$3,300,000.

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

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

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

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.

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

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

Post-Retirement Health Care and Life Insurance Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Commitments

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

14. Contingencies

Workers' Compensation Self-Insurance Liability

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

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

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

Arbitrage

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

Safe Drinking Water

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

Other Legal Matters

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

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

15. Restatement

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

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

Required Supplementary Information

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

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, 2013	\$ 25,638,000	\$ 122,886,000	\$ 97,248,000	21%	\$ 31,677,000	307%
July 1, 2011	14,557,000	127,154,000	112,597,000	11%	29,900,000	377%
July 1, 2009	5,244,000	143,333,000	138,089,000	4%	33,104,000	417%

Supplementary Information

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

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

(A) Call dates indicated are optional.

(B) Noncallable.

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

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

(A) Call dates indicated are optional.

(B) Noncallable.

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

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

**Board of Water Supply
City and County of Honolulu**
Single Audit of Federal Financial Assistance Programs
June 30, 2014

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

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Introduction

October 24, 2014

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, 2014. 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

1. 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, 2014 in accordance with accounting principles generally accepted in the United States of America.
2. 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, 2014, 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.

Organization of Report

Our report is organized as follows:

1. The Introduction describes the objectives and scope of our audit and the organization and contents of this report.
2. 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.
3. 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, 2014 is included under separate cover.

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

Very truly yours,

Compliance and Internal Control Over Financial Reporting



CERTIFIED PUBLIC ACCOUNTANTS

**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, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2014.

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. 2014-001 that we consider to be a significant deficiency.

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

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 24, 2014

**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, 2014. 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, 2014.

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, 2014, and the related notes to the financial statements. We issued our report thereon dated October 24, 2014, 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.

**Board of Water Supply
City and County of Honolulu
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

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 #14-195	\$ 2,179,674
	66.468	ASO LOG #13-124	1,052,823
	66.468	ASO LOG #14-192	956,403
	66.468	ASO LOG #14-194	776,234
	66.468	ASO LOG #13-122	417,932
	66.468	ASO LOG #14-196	435,034
	66.468	ASO LOG #13-123	323,032
	66.468	ASO LOG #14-193	308,080
	66.468	ASO LOG #06-170	59,012
Total expenditures of federal awards			<u>\$ 6,508,224</u>

See note to the schedule of expenditures of federal awards.

**Board of Water Supply
City and County of Honolulu
Note to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

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*.

**Board of Water Supply
City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued

Unmodified

Internal control over financial reporting

• Material weakness(es) identified?

☐ yes ☒ no

• Significant deficiency(ies) identified?

☒ yes ☐ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs

• Material weakness(es) identified?

☐ yes ☒ no

• Significant deficiency(ies) identified?

☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with section 510(a) of OMB Circular A-133?

☐ yes ☒ no

Identification of major program

CFDA

Number

Name of Federal Program or Cluster

66.468

Capitalization Grants for Drinking
Water State Revolving Funds

Dollar threshold used to distinguish between type A and
type B programs

\$300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

**Board of Water Supply
City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section II – Financial Statement Findings

Finding No. 2014-001: 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 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, 2014, we performed an IT general controls review of the following systems operated by BWS:

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

As BWS performed a significant migration to an updated version of J.D. Edwards in the year ended June 30, 2014, we performed additional migration testing over:

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

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

Logical security

- Weak password security
- User access rights not approved and granted on a need-to-know, need-to-do basis
- Lack of validation by business for user access rights

Change management

- Lack of IT segregation of duties
- Lack of user acceptance for configuration changes

IT operations

- Lack of monitoring controls for certain financial system interfaces

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

Effect

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

Logical security

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

**Board of Water Supply
City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

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.

Recommendations

We recommend that BWS perform the following:

- Identify methods to ensure IT policies and procedures are consistently followed.
- Remove user access that is not commensurate with job responsibilities.
- Identify methods to ensure change management policies and procedures are consistently followed.

**Board of Water Supply
City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section III – Federal Award Findings and Questioned Costs

None

**Board of Water Supply
City and County of Honolulu
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section IV – Status of Prior Year Findings and Questioned Costs

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

Condition

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.

Status

Partially resolved. In fiscal year 2014, BWS took the following actions to address the control deficiencies identified in fiscal year 2013:

- BWS established an IT steering committee that meets on a quarterly basis to discuss strategic plans and the current status of projects and activities.
- BWS is drafting a formal securities policy to ensure IT policies and procedures are consistently followed.
- BWS performs formal system restoration testing and implemented monitoring controls over batch processing.

BWS is in the process of resolving the remaining IT control deficiencies. As the unresolved deficiencies are reported in current year Finding 2014-001, this finding will not be carried forward.

Corrective Action Plan

BOARD OF WATER SUPPLY

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




October 27, 2014

KIRK CALDWELL, MAYOR

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

ROSS S. SASAMURA, Ex-Officio
FORD N. FUCHIGAMI, Ex-Officio

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

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

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

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

Subject: IT General Controls Review and Detailed Management Letter Comments
on the Financial Statement Audit for the Year Ended June 30, 2014

The Honolulu Board of Water Supply (BWS) has reviewed the IT audit finding and the IT Detailed Management Report that you submitted. Subsequent to this review, the BWS has taken steps to address the recommendations stated therein via the attached detailed Corrective Action Plan.

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 you and your staff during the current year to gain a stronger understanding of the audit process and clarity of audit documentation requirements along with your continued assistance in the development and implementation of our corrective action plan to appropriately address the audit findings, concerns, and recommendations.

Very truly yours,



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

Attachment

Board of Water Supply
Corrective Action Plan
October 21, 2014

As noted in the Board of Water Supply, City and County of Honolulu, Single Audit of Federal Financial Assistance Programs June 30, 2014, Schedule of Findings and Questioned Costs, Year Ended June 30, 2014, identified in Finding No. 2014-001: Information Technology, were the following significant deficiency.

The following will serve as a formal response to the recommendations noted in the Schedule of Findings and Questioned Costs, Year Ended June 30, 2014.

Logical Security

Recommendation:

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

Corrective Action: *Complete*

Enterprise system policies and procedures have been implemented as of June 30, 2014 and will be performed annually. Policies and procedures will be annually reviewed and updated.

Responsible Person: Henderson Nuuhiwa, IT Principle Executive

Recommendation:

Remove user access that is not commensurate with job responsibilities.

Corrective Action: *Ongoing – Target 2Q FY15*

Inappropriate user access have already been removed. Procedures have been updated as recommended and periodic user review are scheduled on a recurring basis.

Responsible Person: Henderson Nuuhiwa, IT Principle Executive

Change Management

Recommendation:

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

Corrective Action: *Completed*

Formal change management policies and procedures were implemented for Oracle Utilities Customer Care & Billing, J.D. Edwards, and Kronos Workforce Timekeeper systems as of June 30, 2014.

Responsible Person: Henderson Nuuhiwa, IT Principal Executive



CERTIFIED PUBLIC ACCOUNTANTS

Quality. Integrity. Insight.

Board of Water Supply City and County of Honolulu June 30, 2014 Audit Results

Presentation to the Board October 27, 2014

Presented by:
Cindy Yee
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

- Unrestricted investments increased by \$29.1 million primarily due to the increase in net position.
- Net capital assets decreased by \$18.0 million due to annual depreciation expense less the change in assets placed into service and construction work in progress.
- Other postemployment benefits asset increased by \$7.5 million due to the additional contributions in fiscal 2014.
- Bonds payable decreased by approximately \$8.4 million due to the repayment of debt.
- Change in net position increased slightly in fiscal 2014 to \$20.5 million compared to fiscal 2013 of \$19.9 million. The results in fiscal 2014 was primarily due to the increase in water sales of \$14.3 million due to the water rate increase of 9.65%.



Required Communications

- 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, 2014, 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

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 are prepared to issue an unmodified opinion on the BWS's financial statements.
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.	<p>Management appropriately adopted Governmental Accounting Standards Board Statement No. 65, <i>Items Previously Reported as Assets and Liabilities</i>, in fiscal 2014.</p> <p>We believe that management has adopted appropriate and reasonable accounting policies and applied them in its financial reporting.</p>

Required Communications

Required Communications	Application to BWS
<p>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.</p>	<p>The more difficult and subjective judgments and estimates were:</p> <ul style="list-style-type: none"> • Allowance for uncollectible receivables. • Depreciation and useful lives of capital assets. • Calculation of other postemployment benefit and workers' compensation liability. <p>Management's estimates were evaluated and appeared to be reasonable.</p>
<p>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.</p>	<p>There was one adjusting journal entry and two reclassifying journal entries in fiscal 2014. All of these journal entries were recorded by management in the audited financial statements.</p> <p>We noted two uncorrected misstatements above our de minimis during our audit which is disclosed on page 9.</p>

Required Communications

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

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

Required Communications	Application to BWS
Other material written communications. <ul style="list-style-type: none">• Management representation letter.• Internal Control and Business Issues Report.• Engagement letter.	<ul style="list-style-type: none">• Management representation letter is available upon request.• There were none.• Contract is available upon request.


Summary of Uncorrected Misstatements

SUD No.	Description	Statement of Net Position					Statement of Revenues, Expenses, and Changes in Net Position			
		Assets	Deferred Outflows of Resources	Liabilities	Invested in Capital Assets	Restricted for Capital Activity & Debt Service	Unrestricted	Differences		
								Known	Proj.	Est.
1	To properly state net position and depreciation expense for the completion of Kapiolani Blvd distribution main.				1,135,296			(1,135,296)		
2	To reclassify overpayments on customer accounts to a liability as unearned revenues.	2,099,074		(2,099,074)						
Total Uncorrected Misstatements		2,099,074		(2,099,074)	1,135,296			(1,135,296)		
Financial Statement Amounts		1,400,719,495	8,759,961	(341,873,894)	(832,295,372)	(22,491,921)	(212,818,269)			
% of Adjustments to F/S Amounts		0.1%	0.0%	0.6%	-0.1%	0.0%	0.0%			5.5%



Audit Plan for June 30, 2015 - Timeline

Discussion with management to understand any key risks or areas of focus for current year	May 2015
Planning	June 2015
Year-end financial statement fieldwork	August – September 2015
Draft report to management	October 5, 2015
Issue final report	October 26, 2015





Information Technology Finding

- The information technology control deficiencies are reported as a significant deficiency in the Single Audit Report.
- Management has taken certain actions to address the control deficiencies identified in fiscal 2013.





CERTIFIED PUBLIC ACCOUNTANTS

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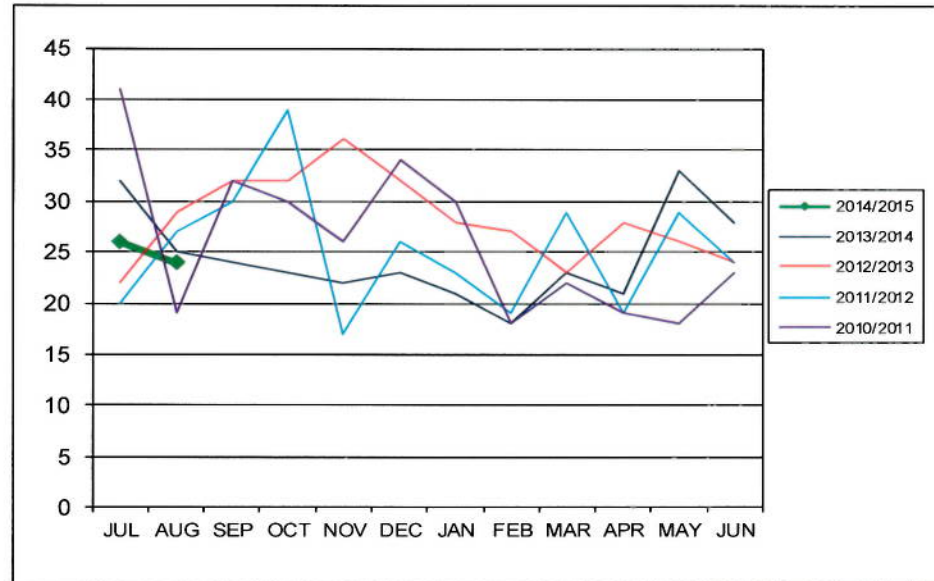
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ITEM FOR INFORMATION NO. 8

WATER MAIN REPAIR REPORT
for August 2014

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	Total
2014/2015	26	24											50
2013/2014	32	25	24	23	22	23	21	18	23	21	33	28	293
2012/2013	22	29	32	32	36	32	28	27	23	28	26	24	339
2011/2012	20	27	30	39	17	26	23	19	29	19	29	24	302
2010/2011	41	19	32	30	26	34	30	18	22	19	18	23	312

<u>Date</u>	<u>Address</u>	<u>Size</u>	<u>Cause</u>
8/1	762 Aalapapa Dr.	12" P.V.C.	Bedding
8/2	99-020 Kaamilo St.	8" P.V.C.	Unknown
8/5	5176 Kilauea Ave.	12" C.I.	Corrosion
8/6	1463 Hoohaku St.	8" C.I.	Unknown
8/6	220 Lunalilo Home Rd.	8" C.I.	Corrosion
8/7	98-1728 Ulu St.	8" C.I.	Corrosion
8/8	2411 Kini Pl.	6" C.I.	Corrosion
8/8	2024E Waiola St.	6" C.I.	Corrosion
8/8	1343 Kinau St.	6" C.I.	Corrosion
8/14	1568 Kealia Dr.	6" C.I.	Corrosion
8/15	3247 Woodlawn Dr.	8" C.I.	Settlement
8/16	87-606 Manuaihue St.	8" P.V.C.	Svc Saddle
8/16	92-7006 Elele St.	8" D.I.	Corrosion
8/18	Puowaina Dr. & Auwaiolimu St.	8" C.I.	Unknown
8/19	46-227 Kamehameha Hy.	8" C.I.	Unknown
8/20	308 Kilua Pl.	12" P.V.C.	Unknown
8/20	1314 Kuuna St.	8" C.I.	Unknown
8/21	92-7011 Elele St.	8" D.I.	Corrosion
8/21	1643 Glen Av.	6" C.I.	Corrosion
8/22	98-215 Aiea Kai Pl.	8" D.I.	Corrosion
8/22	94-322 Amokii St.	8" C.I.	Corrosion
8/26	2135 Tantalus Dr.	6" C.I.	Unknown
8/29	1911 Hani Ln.	6" C.I.	Corrosion
8/31	99-114 Uahi St.	6" C.I.	Corrosion



Bold * - Pro-active Leak Repair

40.6 miles of pipelines were surveyed by the Leak Detection Team in the month of August

DISCUSSION: Field Operations Program Administrator Daryl Hiromoto gave the report.
There were no comments or discussion.

MOTION TO
ADJOURN

There being no further business Chair Miyashiro at 3:32 PM called for a motion to adjourn the Open Session. Ross Sasamura so moved; seconded by Theresia McMurdo and unanimously carried.

Respectfully submitted,



LISA K. KIM

APPROVED:



DUANE R. MIYASHIRO
Chair of the Board

NOV 24 2014

Date

THE MINUTES OF THE REGULAR SESSION BOARD MEETING ON OCTOBER 27, 2014 WERE APPROVED AT THE NOVEMBER 24, 2014 BOARD MEETING			
	AYE	NO	COMMENT
DUANE R. MIYASHIRO	X		
ADAM C. WONG			ABSENT
MAHEALANI CYPHER	X		
THERESIA C. MCMURDO			ABSENT
DAVID C. HULIHEE	X		
ROSS S. SASAMURA	X		
ROSS M. HIGASHI			ABSENT