

Water System of the Virgin Islands Water and Power Authority

**Financial Statements and
Supplemental Schedule
Years Ended June 30, 2015 and 2014**

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

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**Water System of the Virgin Islands
Water and Power Authority**

Financial Statements and
Supplemental Schedule
Years Ended June 30, 2015 and 2014

Water System of the Virgin Islands Water and Power Authority

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Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive, Suite 800
McLean, VA 22102

Independent Auditor's Report

The Virgin Islands Water and Power Authority Governing Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Water System (the Water System) of the Virgin Islands Water and Power Authority (the Authority), a major fund of the Authority, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Water System's basic financial statements as listed in the table of contents.

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.

Auditor's 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 of 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 auditor's 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 auditor considers 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 the 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System of the Virgin Islands Water and Power Authority, as of June 30, 2015 and 2014, and the changes in financial position and cash flows thereof 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 1, the financial statements present only the Water System and do not purport to, and do not present fairly the financial position of the Authority, as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Also as discussed in Note 1, in 2015, the Water System adopted Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of funding progress—other post-employment benefits obligation, schedule of the system's share of the net pension liability, and schedule of system contributions on pages 6 through 11 and 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 - Supplemental Schedule

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water System's basic financial statements. The five-year comparative summary of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements.



Such information 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2016, on our consideration of the Water System'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 Water System's internal control over financial reporting and compliance.

BDO USA, LLP

June 17, 2016

Management's Discussion and Analysis

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Virgin Islands Water and Power Authority (the Authority) owns, operates, and maintains a water production and distribution system (the Water System) and an electric generation and distribution system (the Electric System), which are separately financed and require separate accounting and reporting. Each of these systems is accounted for as a separate enterprise fund. As management of the Authority, we offer readers of the Water System financial statements this discussion and analysis of the financial activities of the Water System for the years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this section.

The Water System's service territory includes the islands of St. Thomas, St. Croix and St. John. Because of the historical development of the Water System and certain characteristics unique to the U.S. Virgin Islands, the Water System serves a small portion of the potential customers in the U.S. Virgin Islands. Among such factors is a U.S. Virgin Islands building code requirement revised in 1996, that all new residential and commercial buildings have cisterns to accumulate rainwater. This requirement has reduced the demand for potable water from the Authority. In addition, because of the mountainous, rocky terrain, especially on the islands of St. Thomas and St. John, the construction of the water distribution system has been difficult and costly.

The Authority provides water service to more than 12,000 customers. The Authority also provides electric service to approximately 55,000 customers. The Water System's rates are under the jurisdiction of the Virgin Islands Public Services Commission, unlike many other municipal systems. These rates are intended to provide revenues to recover operating and maintenance expenses, funds for debt service coverage requirements, and funds for working capital and capital expenses. The Authority does not use rate base or rate of return principles for setting rates.

Financial Highlights - 2015

The Water System's net position decreased by \$4.0 million, as a result of 2015 operations. There was \$33.1 million in total operating revenues and \$29 thousand in capital grants and contributions, offset by \$36.5 million in operating and production expenses and \$685 thousand in total non-operating expenses.

- The Water System's fuel costs recoverable balance increased by \$8 thousand or 6%, as the LEAC factors approved by the Public Services Commission (PSC) were adequate to recover the cost of fuel in the current period.
- During fiscal 2015, the Water System's total operating revenues increased by \$1.6 million, or a 5% increase. The increase is attributable mainly to increases in water sales to customers of \$584 thousand and fuel escalator revenues of \$988 thousand.
- Operating and production expenses increased from \$30 million to \$36.5 million, a 22% increase compared to the prior year. This was due to increases of \$1.3 million in production cost of water distributed and a \$5.2 million increase in operations and maintenance costs, inclusive of required pension accounting standards implementation offset by decrease of \$103 thousand in customer expenses.

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Financial Highlights - 2014

The Water System's net position increased by \$3.7 million, or 8%, as a result of 2014 operations. There was \$31.5 million in total operating revenues and \$3.0 million in capital grants and contributions, offset by \$29.9 million in operating and production expenses and \$872 thousand in total non-operating expenses.

- The Water System's fuel costs recoverable balance decreased by \$1.6 million or 91%, as the LEAC factors approved by the Public Services Commission (PSC) were adequate to recover the cost of fuel in the current period.
- During fiscal 2014, the Water System's total operating revenues decreased by \$6.2 million, or a 16% decrease. The decrease is attributable mainly to decreases in water sales to customers of \$2.5 million and fuel escalator revenues of \$2.7 million.
- Operating and production expenses decreased from \$36.0 million to \$29.9 million, a 17% decrease compared to the prior year. This was due to decreases of \$6.5 million in production cost of water distributed, decreases of \$684 thousand of depreciation expense, and increases of \$244 thousand in operation and maintenance expenses and \$177 thousand in customer expenses, offset by an increase of \$625 thousand in administrative and general expenses.

Overview of the Financial Statements

Balance Sheet

This statement includes all of the Water System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Water System creditors (liabilities). It also provides the basis for evaluating the capital structure of the Water System and assessing the liquidity and financial flexibility of the Water System.

Statement of Revenues, Expenses, and Changes in Net Position

All of the current year revenues and expenses are accounted for in this statement. This statement measures the success of the Water System's operations over the past year and can be used to determine whether the Water System has successfully recovered all of its costs through its user fees and other charges, and maintained profitability and creditworthiness.

Statement of Cash Flows

The primary purpose of this statement is to provide information about the Water System's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as "where did cash come from?" "what was cash used for?" and "what was the change in cash balances during the reporting period?"

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Notes to the Financial Statements

The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 17-36 of this report.

Financial Analysis of the Authority's Water System

One of the most important questions asked about the Water System's finances is: "Is the Water System better off or worse off as a result of the fiscal year activities?" The balance sheet and the statement of revenues, expenses, and changes in net position report information about the activities of the Water System in a way that will help answer this question. These two statements report the net position of the Water System and the changes in them. You can think of the Water System's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Water System's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, customer growth, and new or changed legislation and regulation to gauge overall changes in financial health.

The table below provides a comparative review of key balance sheet captions.

Table 1
Condensed Balance Sheets

<i>As of June 30,</i>	2015	2014	2013
Current assets	\$ 12,553,366	\$ 13,831,632	\$ 15,428,601
Restricted assets	9,595,933	8,807,647	10,150,765
Other non-current assets	3,014,609	1,310,570	1,547,390
Capital assets	64,934,739	66,383,985	66,641,722
Deferred outflows of resources	5,419,508	-	-
Total assets and deferred outflows	\$ 95,518,155	\$ 90,333,834	\$ 93,768,477
Long-term debt	\$ 70,465,205	\$ 30,142,359	\$ 34,868,154
Other liabilities	10,301,363	7,302,966	9,747,493
Total liabilities	80,766,568	37,445,325	44,615,647
Net investment in capital assets	56,170,321	54,997,344	52,250,790
Restricted	8,818,702	7,970,360	9,254,828
Unrestricted	(50,237,436)	(10,079,195)	(12,352,788)
Total net position	14,751,587	52,888,509	49,152,830
Total liabilities and net position	\$ 95,518,155	\$ 90,333,834	\$ 93,768,477

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

Changes in net position can be seen by reviewing the following condensed statements of revenues, expenses, and changes in net position.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position

<i>Years ended June 30,</i>	2015	2014	2013
Base revenues	\$ 20,941,498	\$ 21,178,193	\$ 24,752,735
Fuel escalator revenues	11,332,551	10,343,859	13,014,619
Line Loss Surcharge	756,256	395,485	-
Investment earnings	9,844	28,546	26,992
Bad debt expense	72,960	(415,486)	(60,767)
Total revenues	33,113,109	31,530,597	37,733,579
Production cost of water distributed	13,502,213	12,128,267	18,614,867
Operating expenses, excluding production and depreciation and amortization	19,578,908	14,396,246	13,349,863
Depreciation, net of amortization	3,409,422	3,413,191	4,097,298
Interest expense	695,573	864,360	1,364,442
Total expenses	37,186,116	30,802,064	37,426,470
(Loss) income before capital grants and contributions	(4,073,007)	728,533	307,109
Capital grants and contributions	29,238	3,007,146	3,185,476
(Decrease) increase in net position	(4,043,769)	3,735,679	3,492,585
Net position, beginning of year	18,795,356*	49,152,830	45,660,245
Net position, end of year	\$ 14,751,587	\$ 52,888,509	\$ 49,152,830

*As restated; see Note 1.

The Water System's net position decreased by \$4.0 million during the fiscal year ended June 30, 2015. Key elements of the 2015 decreases are as follows:

- Base revenue reflects a decrease of \$236 thousand or 0.01% in fiscal year 2015 compared to fiscal year 2014, which is due to a decrease in sales of water. The decrease in sales is due to a base rate decrease in fiscal year 2014.
- Fuel escalator revenues reflect an increase of \$988 thousand or 10% in fiscal 2015 compared to fiscal 2014. This was mainly due to an overall decrease in the average LEAC rate.
- Total operating and production expenses increased by \$6.6 million, mainly as a result of a recording the GASB 68 pension expense of \$5.6 million and increase in production expense of 1.0 million.

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Water System's net position increased by \$3.7 million during the fiscal year ended June 30, 2014. Key elements of the 2014 increases are as follows:

- Base revenue reflects a decrease of \$3.6 million or 14% in fiscal year 2014 compared to fiscal year 2013, which is due to an increase in sales of water. The increase in sales is due to a base rate increase in fiscal year 2013.
- Fuel escalator revenues reflect a decrease of \$2.7 million or 21% in fiscal 2014 compared to fiscal 2013. This was mainly due to an overall decrease in the average LEAC rate.
- Total operating and production expenses decreased by \$5.9 million, mainly as a result of a decrease of fuel costs allocated to the Water System from the Electric System. This is due to the Authority's use of reverse osmosis to produce water compared to the use of the IDE Desalinization Plants.
- Capital grants and contributions received in fiscal 2014 were \$3.0 million. The majority of these funds were grants from the Environmental Protection Agency (EPA) through the Virgin Islands Departments of Planning and Natural Resources for capital projects.

Capital Asset and Debt Administration

Capital Assets

The Water System's capital assets as of June 30, 2015, amounted to \$64.9 million (net of accumulated depreciation and property-related gains), which reflected a decrease of \$ 1.4 million, or 2.0% compared to last year. These capital assets include land, transmission, distribution and collection systems, buildings and fixed equipment, and furniture, fixtures, and equipment.

Table 3 provides detail of the capital assets net of accumulated depreciation and property-related gains.

Table 3
Capital Assets
(Net of Accumulated Depreciation and Property-Related Gains)

<i>June 30,</i>	2015	2014	2013
Land	\$ 184,225	\$ 184,225	\$ 184,225
Utility plant in service	60,089,660	62,799,980	64,374,720
Buildings and fixed equipment	441,528	347,443	387,681
Furniture, fixtures, and equipment	545,628	511,470	543,147
Construction work-in-progress	3,673,698	2,540,867	1,151,948
Net utility plant	\$ 64,934,739	\$ 66,383,985	\$ 66,641,721

The major projects completed in fiscal year 2015 were the Smith Bay/Water Bay Village Condominiums, Air National Guard Waterline Extension, RO System Infrastructure upgrade, and Upper Love 4" Water Line extension for \$74 thousand.

Water System of the Virgin Islands Water and Power Authority

Management's Discussion and Analysis

The Authority's fiscal 2016 capital budget includes investing \$11.9 million in capital projects. Included in the amount of capital projects are \$7.1 million of water projects that have been identified for funding from the Department of Interior, Environmental Protection Agency, Virgin Islands local agencies, and \$2.7 million from the Virgin Islands Government Property Capital Tax Fund. The balance of the funding for the capital program is expected to be provided from internal sources, including available cash balances.

Additional information on capital assets can be found in Note 6.

Long-Term Debt

At June 30, 2015, the Water System had total long-term debt outstanding of \$10.4 million, comprised of revenue bonds, net of unamortized discount.

In fiscal 2015, the Water System decreased its long-term debt by 19%, or \$3.1 million, through scheduled maturities and amortization.

Table 4 provides the detail of long-term debt.

Table 4
Long-Term Debt

<i>June 30,</i>	2015	2014	2013
Revenue bonds	\$ 10,435,000	\$ 13,560,000	\$ 16,520,000
Lines of credit	2,500,000	2,500,000	2,500,000
Total	12,935,000	16,060,000	19,020,000
Plus unamortized bond discount	(43,764)	(65,647)	(87,529)
Total	\$ 12,891,236	\$ 15,994,353	\$ 18,932,471

The Authority's ability to incur long-term indebtedness is capped by Virgin Islands statute at \$500 million for the Electric and Water Systems combined. As of June 30, 2015, combined long-term amounted to approximately \$282.7 million.

Additional information on long-term debt can be found in Note 9.

Requests for Information

This financial report is designed to provide a general overview of the Water System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Virgin Islands Water and Power Authority, P.O. Box 1450, St. Thomas, USVI 00804.

Financial Statements

Water System of the Virgin Islands Water and Power Authority

Balance Sheets

June 30 ,	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,259,142	\$ 5,109,440
Accounts receivable:		
Customers and other, net	929,220	604,370
Virgin Islands Government, net	3,999,006	4,172,291
Grants receivable	163,362	211,825
Fuel costs recoverable	162,608	153,865
Unbilled revenues	1,567,915	1,853,453
Inventories:		
Water	364,684	219,245
Materials and supplies	654,153	613,185
Prepayments and other current assets	453,276	893,958
Total current assets	12,553,366	13,831,632
Restricted assets:		
Cash and cash equivalents	2,117,725	1,416,084
Investments	7,478,208	7,391,563
Total restricted assets	9,595,933	8,807,647
Other noncurrent assets:		
Virgin Islands Government accounts receivable, net	3,014,609	1,310,570
Capital assets:		
Utility plant in service	145,838,848	145,011,502
Less accumulated depreciation	(83,339,045)	(79,742,113)
Property-related gains, net	(1,238,762)	(1,426,271)
Net utility plant in service	61,261,041	63,843,118
Construction in progress	3,673,698	2,540,867
Net capital assets	64,934,739	66,383,985
Deferred outflows of resources		
Pension related outflows	5,419,508	-
Total assets and deferred outflows of resources	\$ 95,518,155	\$ 90,333,834

Continued on next page.

Water System of the Virgin Islands Water and Power Authority

Balance Sheets (continued)

June 30 ,	2015	2014
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,219,401	\$ 3,805,066
Line of credit	2,500,000	-
Total current liabilities	6,719,401	3,805,066
Liabilities payable from restricted assets:		
Current installments of long-term debt	3,295,000	3,125,000
Accrued interest payable	286,962	372,900
Total liabilities payable from restricted assets	3,581,962	3,497,900
Long-term debt:		
Water System revenue bonds, excluding current installments	7,140,000	10,435,000
Unamortized bond discount	(43,764)	(65,647)
Line of credit	-	2,500,000
Total long-term debt	7,096,236	12,869,353
Other long-term liabilities:		
Accrued OPEB Liabilities	8,928,308	8,021,764
Net pension liability	45,026,931	-
Due to Electric System	9,413,730	9,251,242
Total other long-term liabilities	63,368,969	17,273,006
Total liabilities	80,766,568	37,445,325
Net position:		
Net investment in capital assets	56,170,321	54,997,344
Restricted	8,818,702	7,970,360
Unrestricted (deficit)	(50,237,436)	(10,079,195)
Total net position	14,751,587	52,888,509
Total liabilities and net position	\$ 95,518,155	\$ 90,333,834

See accompanying notes.

Water System of the Virgin Islands Water and Power Authority

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30,	2015	2014
Operating revenues:		
Water sales to customers	\$ 10,958,862	\$ 10,374,206
Water sales to Virgin Islands Government	9,503,662	10,383,518
Fuel escalator revenues	11,332,551	10,343,859
Line Loss Surcharge	756,256	395,485
Other operating revenues	478,974	420,469
Bad debts recovery (expense)	72,960	(415,486)
Total operating revenues	33,103,265	31,502,051
Operating and production expenses:		
Production cost of water distributed	13,502,213	12,128,267
Operations and maintenance	13,212,720	7,944,279
Customer service	1,248,120	1,352,112
Administrative and general	5,118,068	5,099,855
Depreciation, net of amortization	3,409,422	3,413,191
Total operating and production expenses	36,490,543	29,937,704
Operating (loss) income	(3,387,278)	1,564,347
Nonoperating income (expense):		
Interest expense	(695,573)	(864,360)
Investment earnings	9,844	28,546
Total nonoperating expense	(685,729)	(835,814)
Capital grants and contributions	29,238	3,007,146
(Decrease) increase in net position	(4,043,769)	3,735,679
Net position, beginning of year, as previously reported	52,888,509	49,152,830
Change in accounting principle (see Note 1)	(34,093,153)	-
Net position, beginning of year, as restated	18,795,356	49,152,830
Net position, end of year	\$ 14,751,587	\$ 52,888,509

See accompanying notes.

Water System of the Virgin Islands Water and Power Authority

Statements of Cash Flows

<i>Years Ended June 30,</i>	2015	2014
Operating activities		
Receipts from customers	\$ 28,516,085	\$ 34,159,635
Payments to suppliers	(18,352,537)	(26,207,702)
Payments to employees	(4,405,090)	(4,998,316)
Net cash provided by operating activities	5,758,458	2,953,617
Capital and related financing activities		
Principal payments on long-term debt	(3,125,000)	(2,960,000)
Interest paid on long-term debt	(759,629)	(923,879)
Acquisition and construction of capital assets	(1,960,176)	(3,155,453)
Capital grants received	14,492	2,772,461
Net cash used in capital and related financing activities	(5,830,313)	(4,266,871)
Investing activities		
Interest received	9,844	28,546
Purchases, sales, and maturities of investments, net	(86,646)	(2,650)
Net cash (used in) provided by investing activities	(76,802)	25,896
Net change in cash and cash equivalents	(148,657)	(1,287,358)
Cash and cash equivalents, beginning of year	6,525,524	7,812,882
Cash and cash equivalents, end of year	\$ 6,376,867	\$ 6,525,524

Continued on next page.

Water System of the Virgin Islands Water and Power Authority

Statements of Cash Flows (continued)

<i>Years Ended June 30,</i>	2015	2014
Cash and cash equivalents		
Unrestricted	\$ 4,259,142	\$ 5,109,440
Restricted	2,117,725	1,416,084
	\$ 6,376,867	\$ 6,525,524
Reconciliation of operating (loss) income to net cash provided by operating activities		
Operating (loss) income	\$ (3,387,278)	\$ 1,564,347
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	3,596,931	3,600,698
Amortization of deferred property-related gains	(187,509)	(187,507)
Net pension liability	45,026,931	-
Deferred outflow of resources	(5,419,508)	-
Change in accounting principle	(34,093,153)	-
Accrued OPEB liability	906,544	920,483
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,521,602)	(1,074,975)
Inventories	(186,407)	245,342
Prepayments and other current assets	440,682	(74,290)
Fuel Recoverable	(8,743)	2,796,122
Due to Electric System	162,488	(3,728,708)
Accounts payable and accrued liabilities	429,080	(1,107,895)
Net cash provided by operating activities	\$ 5,758,458	\$ 2,953,617
	<i>See accompanying notes.</i>	

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

1. Organization and Summary of Significant Accounting Policies and Practices

Organization and Operation

The Virgin Islands Water and Power Authority (the Authority) is an instrumentality that was created by the government of the United States Virgin Islands (the Government) in 1964. The Authority was created to operate a water production and distribution system (the Water System) and an electric generation and distribution system (the Electric System) in the United States Virgin Islands. The Authority is governed by a nine member board, three of whom are appointed by the Governor of the Virgin Islands from his Cabinet, and six of whom are nominated by the Governor of the Virgin Islands and confirmed by the Virgin Islands Legislature. As such, the Government has determined that the Authority is a component unit. The Water and Electric Systems are separately financed and each system's indebtedness is repayable from its net revenues. The Authority is required by its bond resolutions to maintain separate accounting for each system.

The Water System of the Virgin Islands Water and Power Authority accounts for all activities associated with the production and distribution of water to customers. The accompanying financial statements include only the financial activities of the Water System. Each system is considered a major fund of the Authority for financial reporting purposes.

Measurement Focus and Basis of Accounting

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). The operations of the Authority are presented as an enterprise fund and as such, the financial statements are reported using the economic measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Authority has adopted all applicable GASB statements through No. 71.

In accordance with the Water System Revenue Bond Resolution (Bond Resolution), rates are designed to cover debt service, capital expenditures, and other operating expense requirements, excluding depreciation and other noncash expense items. This method of rate setting results in costs being included in the determination of rates in different periods rather than when these costs are recognized for financial statement purposes.

Rates and Regulation

The Authority is regulated by the Virgin Islands Public Services Commission (PSC or the Commission). The Commission has the authority to approve, modify, or deny any proposed rate changes made by the Authority. The Authority is subject to the provisions of GASB No. 62, which address accounting rules for regulated operations. This standard allows regulated entities such as the Authority to record certain assets or liabilities as a result of the regulated ratemaking process. Regulatory assets generally represent incurred costs that have been capitalized because such costs are probable of future recovery in customer rates and for the Authority, these include fuel costs recoverable and alternative energy research costs.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or items that will be credited to customers in future periods and for the Authority, include unamortized property-related gains.

At June 30, 2015 and 2014, the fuel costs recoverable balances were \$162 thousand and \$154 thousand, respectively, which represent an under-collection of actual fuel costs incurred and not yet recovered through the Levelized Energy Adjustment Clause (LEAC). Regulatory liabilities consist of property-related gains, net of \$1.2 million and \$1.4 million as of June 30, 2015 and 2014, respectively, which are being amortized over future periods as approved by the Commission.

In order for a rate-regulated entity to continue to apply the provisions of GASB No. 62, it must meet the following three criteria: 1) the enterprise's rates for regulated services provided to customers must be established by an independent 3rd party regulator or its own governing board empowered by a statute to establish rates that bind customers; 2) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services; and 3) in the view of the demand for the regulated services and level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged and collected from customers.

Management believes that the Authority currently meets the criteria for continued application of GASB No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to continue to apply GASB No. 62. If the Authority no longer applied GASB No. 62 due to competition, regulatory changes, inadequate rates, or other reasons, the Authority would make certain adjustments that would include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant, contracts, and commitments, and the recognition, if necessary, of any losses to reflect market conditions.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, money market accounts, certificates of deposit, and overnight repurchase agreements, the Authority considers all investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value in the accompanying balance sheets. All changes in the fair value of investments are recognized as gains or losses in the statements of revenues, expenses, and changes in net position.

Inventories

Water and materials and supplies inventories are stated at cost using the weighted-average unit cost method, which approximates the first-in, first-out method. Obsolete and unusable inventory is reduced to estimated salvage value. The cost of fuel oil used for water production is charged to expense as consumed through allocation of costs from the Electric System.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Capital Assets

Capital assets are recorded at cost, which includes material, payroll-related costs, overhead, and an allowance for funds used during construction. Capital expenditures of \$1,000 or more are capitalized. Maintenance and repairs are charged to operating expense as incurred. The cost of depreciable plant retired is eliminated from the utility plant accounts, and such costs, plus cost of removal less salvage, are charged to accumulated depreciation.

Depreciation of capital assets is computed using the straight-line method over estimated service lives ranging from 3 to 100 years. Depreciation expense is net of the property-related gain amortization of approximately \$188,000 for each of the years ended June 30, 2015 and 2014. Depreciation, net of property-related gain amortization, was equivalent to 2.4% and 2.5% of average depreciable property for the years ended June 30, 2015 and 2014, respectively.

In accordance with accounting principles generally accepted in the United States of America, management reviews the estimated useful lives of capital assets on a periodic basis. The results of an engineering condition assessment and depreciation rate review indicated the lives of certain utility plant assets were longer than the estimated useful lives used for depreciation purposes in the Water System's financial statements. As a result, effective July 1, 2013, estimates of the useful lives were changed to better reflect the estimated periods during which these assets will remain in service. The effect of this change in estimate was to adjust 2014 depreciation expense by \$716 thousand less than what would have been charged had the previous lives been utilized.

Property-Related Gains

Insurance and Federal Emergency Management Agency (FEMA) proceeds exceeded the net book value of assets retired as a result of damages sustained from Hurricane Hugo in September 1989 and Hurricane Marilyn in September 1995. To account for these excess proceeds, the Authority recorded property-related gains to be recovered in future periods as mandated by the Virgin Islands Public Services Commission. The property-related gains are being amortized and offset against depreciation expense over the estimated useful lives of the replacement assets. At June 30, 2015 and 2014, property-related gains, net of accumulated amortization, totaled \$1.2 million and \$1.4 million, respectively.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences

The Authority accrues for compensated absences in accordance with accounting principles generally accepted in the United States of America. The Authority allows vesting of permanent employee annual leave, which is governed by the period of employment. Vested annual leave in excess of 480 hours is transferred to the Government Employees' Retirement System (GERS) for retirement service credit.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans, as well as additions to and deductions from the pension plan fiduciary net position have been determined on the same basis as they are reported in the financial statements of the Government of the Virgin Islands Employees' Retirement System (GERS). Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Also see Note 8.

Due to Electric System

As of June 30, 2015 and 2014, the Water System had a payable due to the Electric System in the amount of \$9.4 million and \$9.3 million, respectively, as a result of intersystem transfers. These intersystem balances are noninterest bearing and have no set repayment date. The Authority has classified the amounts as noncurrent because the Electric System will not require that amount to be paid within one year.

Debt Issue Costs

The adoption of GASB No. 65 in fiscal 2014 resulted in recognizing debt issue costs as expense when incurred. Previously these costs were amortized over the life of the revenue bonds on a straight-line basis, which approximates the effective interest method. As a result, the balance sheets no longer reflect any debt issue costs.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on its use, either through legislation or external restrictions imposed by creditors, grantors, laws, or regulations.

Revenue Recognition

Revenues are recorded as service is provided to customers. The Water System accrues the nonfuel portion of base revenues for services rendered but unbilled. The cost of fuel for the Water System is passed directly through to its customers. Every three months, the Commission establishes a LEAC rate that is designed to true-up the fuel costs recovered through the Water System's base rates. If the amount recovered through rates exceeds actual fuel costs, the Water System records fuel costs refundable as a regulatory liability, plus interest at 8.75%, for amounts to be refunded through future rates over the following six-month period. If the amount recovered through rates is less than the actual fuel costs, the Water System records fuel costs recoverable as a regulatory asset, without interest, for amounts to be collected through future rates, generally over the following six-month period. As of June 30, 2015, the amount of the fuel costs recoverable that will not be recovered in fiscal 2015 is classified as long-term. Based on the current LEAC rate, the long-term portion has been determined by the Authority to be \$0. The Authority has classified fuel costs recoverable between current assets and noncurrent assets.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

The Water System distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering water, in connection with the Water System's principal ongoing operations. The principal operating revenues for the Water System are charges to customers for sales and services. Operating expenses for the Water System include the cost of sales and services, administrative expenses, and depreciation on utility plant. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Capital Grants and Contributions

The United States Government and the Virgin Islands Government appropriate and make available to the Authority grant funds for the construction and improvement of water production and distribution facilities.

The Water System also receives capital contributions from customers (nongovernment) for construction and improvement of the facilities. For the years ended June 30, 2015 and 2014, the Water System recognized as capital grants \$9 thousand and \$811 thousand, respectively, from the United States Government and \$20 thousand and \$216 thousand, respectively, from the Virgin Islands Government. Additionally, the Water System recognized contributions from customers totaling \$0 million and \$1.97 million in 2015 and 2014, respectively.

Cost Allocation

The Water and Electric Systems share administrative and operating personnel. Payroll and a substantial portion of other operating expenses are initially incurred by the Electric System and are subsequently allocated to the Water System based on labor costs and hours. The operating costs allocated to the Water System for the years ended June 30, 2015 and 2014, amounted to \$5.4 million and \$5.5 million, respectively.

Expenses incurred for common or integrated facilities are allocated between the Systems using an engineering study that is based on monthly production statistics and the Water System's power consumption. Fuel costs are allocated to the Water System based on this study and, as such, the Water System does not have any fuel inventory. The production costs allocated to the Water System for the year ended June 30, 2014, amounted \$906,000. There were no such costs allocated for the year ended June 30, 2015, as the Systems no longer shares dual-purpose plants in the production of electricity and water. Boilers are no longer used to supply steam to the desalinization units that were used in water production, as reverse osmosis technology is used for all water production.

Commitments and Contingencies

The Authority accrues liabilities for loss contingencies, including deductibles for insurance claims and environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources when it is probable that a liability has been incurred and the amount of the claim, assessment, and/or remediation can be reasonably estimated.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Use of Estimates

Management of the Authority has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

New Accounting Pronouncements

In 2015, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions.

For defined benefit pensions provided by employers, these statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. While restatement of all prior periods was not practical because information regarding the historical proportionate share of actuarial information to the Water System was not available, the impact of implementing the statements is shown as a change in the beginning net position in fiscal 2015.

The adjustment decreasing beginning net position by (\$34,093,153) is comprised of the net pension liability at July 1, 2014, of (\$34,652,651) plus deferred outflows or resources of \$559,498 for contributions made subsequent to the measurement date of September 30, 2013 through June 30, 2014.

2. Deposits and Investments

In accordance with its policies and the Bond Resolution, the Authority is authorized, with certain restrictions, to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United States Government, and obligations of any state within the United States, mutual funds, and corporate commercial paper.

The fair value of the Water System's deposits and investments, excluding accrued interest, are as follows:

<i>As of June 30, 2015</i>	Investment Maturities (in years)		
	Fair Value	Less than 1	Greater than 1
U.S. Governmental agency securities	\$ 7,478,208	\$ 7,478,208	\$ -
Certificates of deposit	3,981,964	3,981,964	-
Cash deposits	2,394,903	2,394,903	-
Total	\$ 13,855,075	\$ 13,855,075	\$ -

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

As of June 30, 2014	Investment Maturities (in years)		
	Fair Value	Less than 1	Greater than 1
U.S. Governmental agency securities	\$ 7,391,563	\$ 7,391,563	\$ -
Certificates of deposit	4,429,596	4,429,596	-
Cash deposits	2,095,927	2,095,927	-
Total	\$ 13,917,086	\$ 13,917,086	\$ -

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the Water System has an investment practice for operating funds structured to provide sufficient liquidity to pay obligations as they come due and limits investments to not more than one-year maturities. Bond proceeds and reserve funds are managed in accordance with bond covenants and funding needs which could result in maturities longer than one year.

Credit Risk and Concentration of Credit Risk: As of June 30, 2015, the Water System's exposure to credit risk is evaluated by the ratio of investments including deposits and investments in United States Governmental agency securities, certificates of deposit, and cash deposits. The Authority places no limit on the amount the Water System may invest in any one permitted investment type. As of June 30, 2015, 54% of the Water System's cash and investments are in United States Governmental agency securities, 29% are invested in certificate of deposits, and 17% are in cash deposits. As of June 30, 2014, 53% of the Authority's investments are in United States Governmental agency securities, 32% are invested in certificate of deposits, and 15% are in cash deposits.

Custodial risk: The Authority does not have a custodial risk policy. This is the risk that the Authority will not be able to recover the value of its investments that are in the possession of an outside party. At June 30, 2015, 100% of the Water System's investments were held in the name of Bank of New York Mellon, as Trustee for the Authority.

Financial Risk: The Authority places both Water System and Electric System cash and cash equivalents with some of the same high credit quality financial institutions that are federally insured. As such, in the event of a loss, federal insurance recoveries would have to be allocated among the two systems. The potential amounts held in excess of the FDIC limits for the Water System were \$12,480,774 at June 30, 2015. The Water System has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

3. Accounts Receivable

Accounts receivable consist of the following at June 30:

	2015	2014
Customers	\$ 7,039,155	\$ 7,145,480
Other	267,713	203,735
Customers and other accounts receivable	7,306,868	7,349,215
Less allowance for doubtful accounts	(6,337,648)	(6,744,845)
Customers and other accounts receivable, net	929,220	604,370
Virgin Islands Government accounts and grants receivable	7,220,565	5,738,275
Less allowance for doubtful accounts	(43,588)	(43,588)
Virgin Islands Government accounts and grants receivable, net	7,176,977	5,694,686
Unbilled revenues	1,567,915	1,853,453
Accounts receivable, net	\$ 9,674,112	\$ 8,152,509

The Authority has made certain arrangements with specific governmental agencies concerning the collection of past due accounts receivable. As of June 30, 2015 and 2014, the Authority has classified Government accounts receivable of approximately \$3.0 million and \$1.3 million, respectively, as noncurrent because these balances are expected to take longer than one year from the balance sheet dates to be paid by the various government agencies.

4. Restricted Assets

The Bond Resolution, as amended, and certain Commission regulatory orders establish the following funds and accounts, which are restricted as to their usage:

Construction and Rehabilitation Funds - Amounts in the Construction and Rehabilitation Funds shall be used to pay the cost of construction of plant and equipment used in the production and distribution of water. The Construction and Rehabilitation Funds are held by the Authority.

Renewal and Replacement Fund - Amounts maintained in the Renewal and Replacement Fund are to be utilized for certain projects, extraordinary operation, maintenance, renewal or replacement costs and payment of certain contingencies. The Renewal and Replacement Fund is held by the bond trustee.

Debt Service Fund - The Authority is required to make monthly deposits into the Debt Service Fund to accumulate the required debt service amounts payable to bondholders prior to the next interest and/or principal payment date. The Debt Service Fund is held by the bond trustee who makes the required payments on behalf of the Authority.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Debt Service Reserve Fund - The Authority is required to maintain a balance in the Debt Service Reserve Fund equal to the maximum annualized debt service requirement remaining on any outstanding revenue bonds. The Debt Service Reserve Fund is held by the bond trustee.

Line Loss Fund - Amounts maintained in the Line Loss Fund are to be utilized for certain projects relating to the renewal or replacement of water lines.

Water System revenues and all funds established by the Bond Resolution are pledged for payment of bond principal and interest. The trustee funds as outlined above include the Renewal and Replacement Fund, the Debt Service Fund, and the Debt Service Reserve Fund, and consist primarily of cash equivalents and investments in United States government securities stated at fair value. Other funds specified by the Bond Resolution and the Commission are primarily in cash and cash equivalents. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Restricted assets consist of the following at June 30:

	2015	2014
Rehabilitation Fund	\$ 512,973	\$ 511,711
Construction Fund	154,558	154,249
Renewal and Replacement Fund	750,261	750,126
Debt Service Fund	3,584,059	3,498,111
Debt Service Reserve Fund	3,894,150	3,893,450
Line Loss Fund	699,933	-
	\$ 9,595,933	\$ 8,807,647

5. Advances on Grants

The Authority received advance grant funding from the Virgin Islands Government to improve the water distribution system and to extend the water lines to Anna's Retreat and Smith Bay for the purpose of making potable water available to customers on the eastern end of St. Thomas. The Authority has expended \$21,000 of these grants as of June 30, 2014. No such amounts were expended as of June 30, 2015.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

6. Capital Assets

Capital assets activity for the year ended June 30, 2015, was as follows:

Description	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 184,225	\$ -	\$ -	\$ -	\$ 184,225
Construction in progress	2,540,867	1,439,320	-	(306,489)	3,673,698
Depreciable assets:					
Utility plant	144,827,277	520,857	-	306,489	145,654,623
Total at historical cost	147,552,369	1,960,177	-	-	149,512,546
Less accumulated depreciation	79,742,113	3,596,931	-	-	83,339,045
Property-related gains	1,426,271	-	(187,509)	-	1,238,762
Total deductions	81,168,384	3,596,931	(187,509)	-	84,577,807
Capital assets, net	\$ 66,383,985	\$ 5,557,108	\$ 187,509	\$ -	\$ 64,934,739

Capital assets activity for the year ended June 30, 2014, was as follows:

Description	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Non-depreciable assets:					
Land and land right	\$ 184,225	\$ -	\$ -	\$ -	\$ 184,225
Construction in progress	1,151,949	2,383,553	-	(994,635)	2,540,867
Depreciable assets:					
Utility plant	143,060,742	771,900	-	994,635	144,827,277
Total at historical cost	144,396,916	3,155,453	-	-	147,552,369
Less accumulated depreciation	76,141,415	3,600,698	-	-	79,742,113
Property-related gains	1,613,779	-	(187,507)	-	1,426,271
Total deductions	77,755,194	3,600,698	(187,507)	-	81,168,384
Capital assets, net	\$ 66,641,722	\$ (445,245)	\$ 187,507	\$ -	\$ 66,383,985

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

7. Line of Credit

The Authority has available bank lines of credit of \$5 million for the Water System. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1.0%, London Inter-Bank Offer Rate, (LIBOR) plus 1.75%, or 175 basis points above the interest rate on three-year United States government treasury notes. The Authority has the option to select the variable interest rate to utilize for any borrowings on these notes. At both June 30, 2015 and 2014, there was \$2.5 million outstanding under the lines of credit for the Water System. Originally due in November 2014, these amounts are shown as long term as the Authority signed an agreement extending maturity until June of 2016.

8. Net Pension Liability

Effective July 1, 2014, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows of resources.

Plan Description and Benefits

Full time employees of the Authority are members of GERS, a single-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the Virgin Islands Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members. The plan covers all employees of the Government, including the Authority, except employees compensated on a contract fee basis, casual, per diem or provisional and part time employees who work less than 20 hours per week. Persons over the age of 55 may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after 10 years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

Tier I: Employees hired prior to September 30, 2005

Tier II: Employees hired on or after October 1, 2005

Regular employees who have completed 30 years of credited service or have attained age 60 with at least 10 years of credited service are eligible for a full service retirement annuity. Members who are considered "safety employees" as defined in the Code are eligible for full retirement benefits when they have earned at least 20 years of service or have reached the age of 55 with at least 10 years of credited service. Regular and safety employees who have attained age 50 with at least 10 years of credited service may elect to retire early with a reduced benefit.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is \$65,000, except for senators and judges, whose annual salary is used.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Funding and Contribution Policy

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required employer contribution for Tier I and Tier II members through December 31, 2014, was 17.5 % of the member's annual salary. Effective January 1, 2015, the Government's required contribution was increased to 20.5% of the Tier I and Tier II member's annual salary.

Effective January 1, 2015, Tier I member contributions increased by 1% to 9% of annual salary for regular employees. Member contributions will increase an additional 1% on January 1, 2016, and January 1, 2017.

Effective February 5, 2015, Tier II member contributions increased by 1% to 9.5% of annual salary for regular employees, and will increase an additional 1% on January 1, 2016, and January 1, 2017.

Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS' Board of Trustees approved an effective annual interest rate on refunded contributions of 2% per annum.

The Plan has a September fiscal year end, which differs from the Authority's fiscal year end. GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

Valuation Date:	October 1, 2014
Measurement Date:	September 30, 2014
Measurement Period:	October 1, 2013 - September 30, 2014

The Authority is considered an employer of the Plan with a proportionate share of 8.476% as of September 30, 2014. The Authority's percentage was determined based on its respective contributions as a percentage of the total contributions to the Plan. Management has determined an allocation percentage to apply to the Electric System and Water System based on those systems' employment burdens to the Authority as a whole (approximately 83% and 17%, respectively).

The Authority's proportionate share of employer contributions recognized by GERS was \$5.7 million for the Plan's fiscal year ended September 30, 2014. The Water System's allocated share of employer contributions for the same period was \$0.9 million.

Pension Liabilities and Expense and Deferred Outflows/Inflows of Resources

As of June 30, 2015, the actuarial calculated net pension liability for the Authority's proportionate share of the net pension liability of the Plan was \$261.5 million. The net pension liability of the Plan is measured as of September 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2014. Actuarially determined proportionate share information from GERS was estimated by management based on a projection of the Authority's share of contributions to the Plan relative to all contributions to the Plan. The Water System's allocation of the Authority's proportionate share of the net pension liability of the Plan as of the measurement date was \$45.0 million.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

For the year ended June 30, 2015, the Authority recognized \$32.0 million of pension expense, inclusive of amortization of deferred outflows of pension related items. Of that amount, \$5.5 million was allocated to the Water System's pension expense. Given the limited historical information provided to the Authority by GERS, it was not practical for the Authority to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. As such, and consistent with GASB Statement No. 71, the Authority recognized a beginning deferred outflow of resources only for its pension contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the plan's fiscal year. No other beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions have been recognized. Following is a schedule of deferred outflows of resources allocated to the Water System in the computation of net pension liability:

Changes in assumptions	\$ 2,819,228
Difference between expected and actual experience	419,252
Net difference between projected and actual earnings on pension plan investments	322,273
Change in proportionate share	1,065,009
Contributions made subsequent to measurement date	793,748
	<u>\$ 5,419,508</u>

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, will be recognized in pension expense as follows:

Year ending June 30:

2016	\$ 925,152
2017	925,152
2018	925,152
2019	925,152
2020	925,150

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of September 30, 2014, is provided below, including any assumptions that differ from those used in the October 1, 2014 actuarial valuation. Refer to the October 1, 2014 actuarial valuation report for a complete description of all other assumptions, which can be found on GERS' website.

Inflation Rate:	2.85%
Salary Increases:	4.00% including inflation
Actuarial Cost Method:	Entry Age Normal
Expected Rate of Return:	7.5%
Municipal Bond Yield:	4.11%
Discount Rate:	4.42%
Mortality Table:	RP-2000 set forward 2 years

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Investment Rate of Return

The long-term expected rate of return of 7.5% on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of September 30, 2014, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	45%	6.99%
International equity	10%	7.49%
Fixed income	40%	2.59%
Alternative	5%	4.29%

Discount Rate

The discount rate used to measure the total pension liability was 4.42% as of September 30, 2014 and 4.87% as of September 30, 2013. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the future increases in the employee contribution rates legislated. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.5% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied, which was 4.11% and 4.53% at September 30, 2014 and 2013, respectively.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Water System's allocation of the Authority's proportionate share of the net pension liability (NPL) for the Plan, calculated using the discount rate, as well as what the Water System's allocation of the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

1% Decrease Share of NPL @ 3.42%	Share of NPL @4.42%	1% Increase Share of NPL @ 5.42%
\$ 52,281,231	\$ 45,026,931	\$ 38,893,319

Detailed information about pension plan's fiduciary net position is available in the separately issued GERS financial report.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

9. Long-Term Liabilities

Long-term debt consists of the following at June 30:

	2015	2014
1998 Series, Water System Revenue and Refunding Bonds, interest payable semiannually at 5.5%, maturing semiannually through July 1, 2017. Interest is paid in January and July.	\$ 10,435,000	\$ 13,560,000
Line of Credit	-	2,500,000
Total long-term debt	10,435,000	16,060,000
Less current installments	(3,295,000)	(3,125,000)
Long-term debt, excluding current installments	\$ 7,140,000	\$ 12,935,000

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2015:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 13,560,000	\$ -	\$ (3,125,000)	\$ 10,435,000	\$ 3,295,000
Unamortized discount	(65,647)	-	21,882	(43,764)	-
OPEB liability	8,021,764	906,544	-	8,928,308	-
Total long-term liabilities	\$ 21,516,117	\$ 906,544	\$ (3,103,118)	\$ 19,319,543	\$ 3,295,000

The following is a schedule of changes in long-term liabilities for the year ended June 30, 2014:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 16,520,000	\$ -	\$ (2,960,000)	\$ 13,560,000	\$ 3,125,000
Lines of credit	2,500,000	-	-	2,500,000	-
Unamortized discount	(87,529)	-	21,882	(65,647)	-
OPEB liability	7,101,281	920,483	-	8,021,764	-
Total long-term liabilities	\$ 26,033,752	\$ 920,483	\$ (2,938,118)	\$ 24,016,117	\$ 3,125,000

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Debt service requirements to maturity as of June 30, 2015, on the revenue bonds are as follows:

<i>Year ending June 30</i>	Principal	Interest	Total
2016	\$ 3,295,000	\$ 573,925	\$ 3,868,925
2017	3,475,000	392,700	3,867,700
2018	3,665,000	201,575	3,866,575
	\$ 10,435,000	\$ 1,168,200	\$ 11,603,200

In December 1998, the Authority issued \$44.2 million principal amount of 1998 Series Water System Revenue and Refunding Bonds. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds and have since been paid off.

Payment of principal and interest on the 1998 Series Bonds is secured by an irrevocable lien on the Authority's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Authority has conveyed to the bond trustee a subordinate lien and security interest in the Water System General Fund. The Authority is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The 1998 Series Bonds maturing on or after July 1, 2010, are subject to redemption prior to their stated maturity date, at the option of the Authority, as a whole or in part at any time. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Water System shall be damaged, destroyed, taken, or condemned or (ii) any for-profit, nongovernmental investor shall acquire an ownership interest in some or all assets of the Authority.

The Authority's Bond Resolution requires the Authority under Section 606(1), for as long as the bonds are outstanding, to establish rates "... so that in each fiscal year the net water revenues shall at all times be at least 1.25 the aggregate debt service requirement for such fiscal year." For the years ended June 30, 2015 and 2014, the Authority's Debt Service Coverage ratio was 1.65 and 1.65, respectively. Section 606(2) of the Resolution provides that if the Authority fails to achieve such 1.25 coverage in a particular year, the Authority must "take whatever steps it can to produce the amount of net water revenues required in the following fiscal year" Section 701(3) of the Resolution relates to covenant defaults and makes them an event of default if such covenant default continues for 60 days after notice unless the Authority is proceeding with diligence to cure such default. The Authority has no taxing power and its obligations are not debts of the Government or of the United States of America. However, the Government has agreed to guarantee the payments of the principal and interest on the 1998 Series bonds pursuant to the terms of the Guaranty Agreement by and between the Government, the Authority, and the Bank, which was authorized by the Legislature of the United States Virgin Islands Act No. 7028 (Section 7), 27th Legislature of the United States Virgin Islands.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

10. Commitments and Contingencies

Litigation

The Authority is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Water System's financial position, changes in financial position, or liquidity. Additionally, Title 30, Section 111(a) of the Virgin Islands Code exempts the Authority's Water System property from lien, levy, and sale as the result of any judgment against the Authority, except by bondholders.

Grant Funds

The Authority is subject to audit examination by funding sources to determine compliance with grant conditions. In the event that expenditures would be disallowed, repayment could be required. Management believes that the impact of any disallowed grant expenditures would not have a material adverse effect on the Water System.

Insurance Program

The Water System is exposed to various risks of loss related to damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority mitigates this risk of loss by purchasing commercial insurance, including general liability, excess liability, workers' compensation, property, and employee health, life, and accident. The Authority's commercial insurance policies cover catastrophic exposures, as well as those risks required to be insured by law or contract. It is the policy of the Authority to retain a significant portion of certain losses related primarily to physical loss to property, business interruption resulting from such loss, and comprehensive general and vehicle liability. There were no reductions in coverage from the prior year, and the amount of settlements has not exceeded insurance coverage for each of the past two fiscal years.

Construction Contracts

During the normal course of business, the Authority contracts with various construction companies to help the Water System maintain, replace, and expand its utility plant. These construction costs are expected to be paid for using proceeds from government grants, contributions from developers, and cash from operations.

Agreements with Seven Seas Corporation

The Authority has signed two agreements with Seven Seas Corporation to build, operate and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to the Water System. The agreements both have 20-year terms expiring through 2032. The amounts paid by the Water System to Seven Seas Corporation under the agreements were \$7.9 million and \$7.4 million for 2015 and 2014, respectively.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Leases

During the normal course of business, the Authority leases various property and equipment to support Water System operations. The leases are generally short term in nature and lease payments are not material to the overall operations of the Water System.

11. Regulatory Matters

In April 1998, the Governor signed into law Virgin Islands Act No. 6224, which provides that the Authority, as well as certain other instrumentalities of the Government, make a payment to the Government in lieu of taxes equal to 10% of net revenues or \$500,000, whichever is greater. The term "net revenues" is not defined in the legislation. Subject to further clarification from the Legislature, the Authority has interpreted net revenues as net income calculated in accordance with generally accepted accounting principles. For the years ended June 30, 2015 and 2014, the Water System did not incur any expenses related to this tax. In April 2003, through Order No. 13, the Commission granted the Authority's request to recover the tax through the rates charged to the electric customers effective April 2003.

12. Other Post-Employment Benefits (OPEB)

Policy Description

The Authority extends post-employment health care benefits to retirees. These benefits are extended at the discretion of the Authority, which reserves the right to change or terminate benefits and to change premium contributions required from retirees in the future as circumstances change. All employees who are eligible for service retirement with GERS (see Note 8) qualify for the post-employment benefits. As this is a policy and not a plan administered as a trust, a standalone report is not issued.

Annual OPEB Cost and Net OPEB Obligation

The Authority employs an actuary to assist in estimating the OPEB liability for the Authority as a whole and then allocates that liability and related cost systematically to the Water and Electric Systems. The actuary's estimate of the Authority's accrued OPEB liability, also known as the actuarial accrued liability, which approximates the present value of all future expected post-employment medical premiums (which are attributable to the past service of active and retired employees), was \$52.1 million at June 30, 2015, and the Water System's total OPEB obligation is \$9.0 million. For 2014, the Authority's net OPEB obligation was approximately \$44.8 million and the Water System's net OPEB obligation was \$8.0 million.

The Authority's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost (current and future benefits earned) each year and to amortize any unfunded actuarial liabilities over a period of time not to exceed 26 years. The Authority's annual OPEB cost for the fiscal years 2015 and 2014 was \$9.5 million and \$9.3 million, respectively. Of this, Water System's share for fiscal years 2015 and 2014 was \$1.2 million and \$1.0 million, respectively.

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Description	2015	2014
Normal cost (service cost for one year)	\$ 692,995	\$ 610,925
Amortization of unfunded actuarial accrued liability	547,221	437,493
ARC	1,240,216	1,048,418
Interest on Net OPEB obligation	189,076	284,051
Adjustment to ARC	(242,646)	(295,887)
Annual OPEB cost (expense)	1,186,646	1,036,582
Contributions made	(280,102)	(116,099)
Increase in net OPEB obligation	906,544	920,483
Net OPEB obligation, beginning of year	8,021,764	7,101,281
Net OPEB obligation, end of year	\$ 8,928,308	\$ 8,021,764

The Water System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2015, 2014, and 2013 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 1,142,293	\$ 269,550	24%	\$ 7,101,281
6/30/2014	1,036,582	116,099	11%	8,021,764
6/30/2015	1,186,646	280,102	24%	8,928,308

Funding Policy, Status, and Progress

The Authority has not currently funded any portion of the net OPEB obligation. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The funded status of the Water System's portion of the policy as of June 30, 2015 and 2014 was as follows:

	2015	2014
Actuarial accrued liability (a)	\$ 10,295,923	\$ 10,295,923
Actuarial value of plan assets (b)	-	-
Unfunded actuarial accrued liability (UAAL) (c) = (a-b)	\$ 10,295,923	\$ 10,295,923
Funded ratio (b/a)	0%	0%
Covered payroll (active plan members) (d)	\$ 3,275,222	\$ 3,275,222
UAAL as a percentage of covered payroll (c/d)	314%	314%

Water System of the Virgin Islands Water and Power Authority

Notes to the Financial Statements

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive policy (the policy as understood by the employer and policy members) 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 policy 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.

The Individual Entry Age Normal Cost Method was used in the June 30, 2015 and 2014 actuarial valuations. Actuarial assumptions include a 24-year amortization period, a 4.0% discount rate, projected salary increases of 5.5% including inflation of 3.0%, payroll growth of 4.0%, an initial healthcare cost trend rate of 10.1%, and an ultimate trend rate of 5.0%. The Authority's unfunded actuarial accrued liability is being amortized in a rolling closed amortization, calculated as a level percent of payroll over a 24-year period.

13. Subsequent Events

Rate Case

On November 30, 2015, the Authority's Governing Board authorized the Authority's management to file a petition (the Petition) with the Commission for permanent base rates for the Water System. In summary, the Authority's petitioned the Commission to approve a permanent Water System base rate increase to provide operating margins to: i) meet the debt service coverage target of 175% that has been recommended by the PSC, as well as the minimum 125% required coverage; and ii) fund a portion of the Authority's high-priority capital needs for the Water System.

The permanent base rate increase of 9.2% is projected to increase annual Water System revenues by approximately \$1.93 million. The Petition seeks to have the relevant tariffs revised to increase base rates across-the-board and become effective July 1, 2016, for bills rendered on or after that date. The \$1.93 million revenue increase is equal to 6.3% of total Water System revenues, including revenues from LEAC and amounts billed to the Electric System.

**Required
Supplemental Information**

Water System of the Virgin Islands Water and Power Authority
Schedule of Funding Progress - Other Post-employment Benefit Obligation

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/d)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ -	\$ 19,221,974	\$ 19,221,974	0.00%	\$ 5,115,103	376%
7/1/2011	\$ -	\$ 11,872,003	\$ 11,872,003	0.00%	\$ 5,236,596	227%
7/1/2013	\$ -	\$ 10,295,923	\$ 10,295,923	0.00%	\$ 3,275,222	314%

Water System of the Virgin Islands Water and Power Authority

Schedule of the System's Share of the Net Pension Liability Last Ten Fiscal Years

<i>Fiscal Year</i>	2015
System's allocation of the Authority's proportion of the NPL	1.4591%
System's allocation of the Authority's proportionate share of the NPL	\$ 45,026,931
System's covered-employee payroll	\$ 4,010,648
System's allocation of the Authority's proportionate share of the NPL as a percentage of its covered-employee payroll	1122.68%
Plan fiduciary net position as a percentage of the total pension liability	27.26%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.

Water System of the Virgin Islands Water and Power Authority

Schedule of System Contributions Last Ten Fiscal Years

<i>Fiscal Year</i>	2015
Actuarially required contributions	\$ 2,919,510
Contributions in relation to the actuarially required contributions	793,748
Contribution deficiency (excess)	\$ 2,125,762
Covered-employee payroll	\$ 4,010,648
Contributions as a percentage of covered-employee payroll	19.79 %

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.

Supplemental Schedule

Water System of the Virgin Islands Water and Power Authority

Five-Year Comparative Summary of Operations (Unaudited)

Year Ended June 30,	2015	2014	2013	2012	2011
Operating revenues:					
Water sales to customers	\$ 11,437,836	\$ 10,794,675	\$ 13,387,276	\$ 11,519,827	\$ 14,340,665
Water sales to Virgin Islands Government	9,503,662	10,383,518	11,365,459	9,952,339	11,495,994
Fuel escalator revenues	11,332,551	10,343,859	13,014,619	14,147,853	12,463,680
Line Loss Surcharge	756,256	395,485			
Bad debt expense	72,960	(415,486)	(60,767)	(995,568)	(731,944)
Total operating revenues	33,103,265	31,502,051	37,706,587	34,624,451	37,568,395
Operating and production expenses:					
Production cost of water distributed	13,502,213	12,128,267	18,614,867	21,222,502	21,572,825
Operations and maintenance	13,212,720	7,944,279	7,700,506	7,370,192	7,516,271
Customer service	1,248,120	1,352,112	1,174,849	1,358,527	1,301,940
Administrative and general	5,118,068	5,099,855	4,474,508	4,238,017	4,946,325
Depreciation and amortization	3,409,422	3,413,191	4,097,298	3,951,484	3,858,652
Total operating and production expenses	36,490,543	29,937,704	36,062,028	38,140,722	39,196,013
Operating income (loss)	(3,387,278)	1,564,347	1,644,559	(3,516,271)	(1,627,618)
Nonoperating revenue (expense):					
Interest expense	(695,573)	(864,360)	(1,364,441)	(1,686,853)	(1,821,952)
Investment earnings	9,844	28,546	26,992	150,549	131,999
Total nonoperating expense	(685,729)	(835,814)	(1,337,449)	(1,536,304)	(1,689,953)
Capital grants and contributions	29,238	3,007,146	3,185,475	5,946,814	4,150,260
Increase (decrease) in net position	\$ (4,043,769)	\$ 3,735,679	\$ 3,492,585	\$ 894,239	\$ 832,689
Water revenues:					
Residential	\$ 4,354,561	\$ 4,193,223	\$ 4,994,669	\$ 4,462,487	\$ 5,500,288
Commercial	6,311,550	6,089,829	7,626,991	6,416,525	6,919,161
Virgin Islands Government	3,684,954	4,356,682	4,091,025	3,522,520	3,892,092
Other government	5,818,708	6,026,836	7,274,434	6,429,819	7,603,902
Standpipe	292,751	91,154	240,724	214,275	1,527,528
Fuel escalator revenues	11,332,551	10,343,859	13,014,619	14,147,853	12,463,680
Line Loss Surcharge	756,256	395,485			
Other	478,974	420,469	524,894	426,540	393,688
Total	\$ 33,030,305	\$ 31,917,537	\$ 37,767,356	\$ 35,620,019	\$ 38,300,339
Water sales (gallons) (in thousands):					
Residential	216,134	207,681	238,600	236,320	280,200
Commercial	262,335	400,747	465,970	424,749	408,725
Virgin Islands Government	185,874	208,866	179,361	177,719	198,405
Other government	285,783	288,051	336,907	325,340	351,957
Standpipe	15,601	5,055	11,384	11,536	73,584
Total	965,727	1,110,400	1,232,222	1,175,665	1,312,871
Number of customers at year-end	12,441	12,311	12,329	12,205	12,736