

**Board of Water Supply
City and County of Honolulu**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2020 and 2019

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

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	3 - 6
INDEPENDENT AUDITOR'S REPORT	7 - 9
MANAGEMENT'S DISCUSSION AND ANALYSIS	10 - 16
FINANCIAL STATEMENTS	
Statements of Net Position	17 - 18
Statements of Revenues, Expenses, and Changes in Net Position	19
Statements of Cash Flows	20 - 21
Notes to Financial Statements	22 - 58
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the Net Pension Liability	60
Schedule of Contributions (Pension)	61
Notes to Required Supplementary Information Required by GASB Statement No. 68	62
Schedule of Changes in the Net OPEB Liability and Related Ratios	63
Schedule of Contributions (OPEB)	64
Notes to Required Supplementary Information Required by GASB Statement No. 75	65 - 67
SUPPLEMENTARY INFORMATION	
Schedule of Bonds Payable	69 - 71
Schedule of Net Revenue Requirement	72

**Board of Water Supply
City and County of Honolulu
INTRODUCTION
Fiscal Year Ended June 30, 2020**

The Board of Water Supply of the City and County of Honolulu (BWS) is pleased to present its Annual Financial Report for fiscal year 2020. This introduction provides a brief 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, results of operations, and cash flows of the BWS in conformity with accounting principles generally accepted in the United States of America, accompanied by the independent auditor's report, follows the management's discussion and analysis.

HISTORY OF THE BOARD OF WATER SUPPLY

The BWS was created in 1929 by the Territorial Legislature in response to public outcry for a truly effective water management system that was above politics. The 1929 Legislature passed Act 96 to create and define the powers and duties of the Honolulu Board of Water Supply. Although it remained as a department of the City and County of Honolulu (City), the BWS was designed to be a semi-autonomous and self-supporting agency with the authority to charge for water usage to support its capital improvement and operating expenses and set long-term plans for Oahu's water future.

POWERS, DUTIES, AND FUNCTIONS

The BWS manages Oahu's municipal water resources and distribution system, providing residents with a safe, dependable, and affordable drinking water supply.

The BWS is the largest municipal water utility in the state of Hawaii. In fiscal year 2020, the BWS delivered potable and non-potable water to approximately one million customers on Oahu. The BWS carefully and proactively manages and invests in its intricate system, consisting of 94 active potable water sources, 172 reservoirs, and over 2,100 miles of pipeline.

The BWS is a financially self-sufficient, semi-autonomous agency of the City and County of Honolulu. Its operations and projects are financed with revenues generated by water transmission and distribution fees. It receives no tax money from the City. The BWS also pursues federal and state grants to help subsidize BWS projects.

The BWS is governed by a Board of Directors (Board), consisting of seven members. Five members are appointed by the Mayor and are confirmed by the Honolulu City Council. The remaining two serve in their capacities as the Director of the State Department of Transportation, and the Director and Chief Engineer of the City's Department of Facility Maintenance. The Board appoints the BWS Manager and Chief Engineer to administer the BWS.

The BWS consists of the following 10 divisions: Capital Projects Division, Customer Care Division, Field Operations Division, Finance Division, Information Technology Division, Land Division, Office of the Manager and Chief Engineer, Water Quality Division, Water Resources Division, and Water System Operations Division. There are also 3 staff offices in the Office of the Manager and Chief Engineer: Executive Support Office, Human Resources Office and the Communications Office.

**Board of Water Supply
City and County of Honolulu
INTRODUCTION
Fiscal Year Ended June 30, 2020**

MISSION

The BWS mission is to provide a safe, dependable, and affordable water supply now and into the future, focusing in three strategic areas: resource, operational, and financial sustainability.

- **Resource Sustainability (Safe).** Protect, conserve and manage Oahu's water supplies and watersheds now and into the future through adaptive and integrated strategies.
- **Operational Sustainability (Dependable).** Build an effective organization that continuously works to improve dependable service.
- **Financial Sustainability (Affordable).** Implement sound fiscal strategies to provide safe, dependable and affordable water service.

ACCOMPLISHMENTS

BWS employees work diligently to provide safe, dependable, and affordable water service to customers by concentrating their efforts to achieve the BWS's strategic goals:

Resource Sustainability (Safe)

- Conducted 42,259 chemical tests, 35,094 microbiological tests, and collected 21,656 samples from BWS sources, distribution systems and treatment facilities to ensure all water served is safe to drink; tests performed during Fiscal Year 2020 include regulatory compliance testing, groundwater quality testing, and response to customer inquiries about water quality; BWS continues to monitor the Red Hill Fuel Storage Facilities and provide input to the Administrative Order of Consent as subject matter experts.
- In June 2020, 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 and 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.
- Issued \$295,449 in rebates and achieved an estimated freshwater savings of more than 28 million gallons per year through the BWS water conservation rebate program for efficient clothes washing machines, rain barrels, and weather-based irrigation controllers.
- BWS continues to work on loi kalo restoration projects on BWS lands in Makaha and Manoa; these agricultural farms have watershed protection and cultural components; a community nonprofit group is evaluated and selected through an RFP process; and this effort builds community support of the BWS mission for the protection and management of Oahu's freshwater resources.

**Board of Water Supply
City and County of Honolulu
INTRODUCTION
Fiscal Year Ended June 30, 2020**

- The BWS sponsored its 42nd annual Water Conservation Week Poster Contest and the 12th annual Water Conservation Week Poetry Contest, receiving more than 1020 posters and 608 poems from 56 Oahu schools, focused on the theme "Creating a Sustainable Water Future". All winning entries will be featured in the 2021 Water Conservation Calendar scheduled for distribution in December 2020.

Operational Sustainability (Dependable)

- May 2020 marked the fifth year of the Stakeholder Advisory Group (SAG) - a group comprised of nearly 30 local residents, civic organization leaders, and business and environmental professionals, covering all City Council districts - whose purpose is to provide important feedback on the BWS Water Master Plan, financial plan, proposed rate study and other important initiatives such as water conservation, recycled water and watershed management; and the SAG effort demonstrates the BWS commitment to increase responsiveness and transparency of public engagement and communications.
- Responded to 349 main breaks, or about 17 breaks per 100 miles of pipeline, and conducted leak detection surveys for 297 miles of pipeline, which resulted in the Leak Detection Team finding and repairing 62 leaks before major property damages or system interruptions occurred.
- BWS staff helped protect Oahu's water resources and prevent damage to BWS infrastructure by handling 12,335 One Call locate requests and providing in-field support for 662 water line leaks and breaks. They proactively investigated 23,963 meters to ensure accurate and timely billing and assisted 4,537 customers with concerns about bills reflecting high water consumption. BWS' Call Center personnel assisted over 122,000 customers by phone, online, in person, fax and mail.

Financial Sustainability (Affordable)

- As of June 30, 2020 awarded \$87 million in construction contracts and \$17 million in professional service contracts for projects to maintain and improve water system facilities, including:
 - Well and booster stations, reservoirs and corporation yards, and for the systematic replacement of aging and corroded water mains and fire protection improvements;
 - Scheduled construction work for the replacement of 7 miles of pipelines in the Haleiwa, Kahaluu, Kamehameha Heights, Makakilo, Pauoa, Waikele, Waimanalo, and Waipio areas;
 - Initiated design work for future construction of 15 miles of water main replacements in Ala Moana, Ewa Beach, Hauula, Hawaii Kai, Kaneohe, Kapolei, Kuliouou, Manoa, Moanalua, Waialae Iki, and Waipahu;

**Board of Water Supply
City and County of Honolulu
INTRODUCTION
Fiscal Year Ended June 30, 2020**

- Awarded design and construction contracts for renovations and improvements of the following BWS facilities: Aiea Wells, Halawa 418 Reservoir, Haleiwa Wells, Hoaeae Wells, Honouliuli Well II, Iolekaa Wells, Kaahumanu Wells, Kaluanui Wells, Kapolei 215 Reservoir No. 1, Koko Head 170 Reservoir, Kuliouou Well, Kunia Wells II, Maakua Well, Makaha Wells, Manoa Wells II, Mauna Olu 530 Reservoir, Mililani 994 Booster Station, Mililani Wells I, Mililani Wells II, Mililani Wells IV, Moanalua and Quarry Tunnels, Newtown Wells, Pearl City 285 Reservoir No. 1, Punaluu Wells III, Wahiawa Wells I, Waialae West Well, Waiau Wells, Waipahu Wells I, and Waipahu Wells III;
- Replaced 39,265 automated meter reading transponder units as part of a \$5 million initiative to change out 80,000 units in order to improve automated mobile meter reads and improve billing process efficiency;
- Payments via automatic bill pay have increased in FY 20 and account for 32.9% of all payments. Payments via lockbox continue to be a popular method of payment as well at 31.6% of the customers using this service. Credit card payments account for 19.7%; online banking payments 8.5%, walk-in payments 3.4%; payments made at satellite city hall locations 1.5%, and mail 2.4%.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Board of Water Supply (the "BWS"), a component unit of the City and County of Honolulu (the "City"), as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the BWS'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 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 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 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, 2020 and 2019, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 10 through 16 and the schedules of proportionate share of the net pension liability, contributions (pension), changes in the net OPEB liability and related ratios, and contributions (OPEB) on pages 60 to 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information 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 financial statements that comprise the BWS's basic financial statements. The introduction and schedules of bonds payable and net revenue requirement are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introduction 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 November 6, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the BWS's 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.

N + K CPAs, INC.

Honolulu, Hawaii
November 6, 2020

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2020 and 2019**

This section presents management's discussion and analysis of the BWS's financial condition and activities for the fiscal year ended June 30, 2020. This information should be read in conjunction with the BWS's basic financial statements.

Financial Highlights

The BWS implemented the second of five rate increases on July 2019 to meet cost of delivering water to customers and to support the continuation of the capital improvements needed to meet the mission of the Board of Water Supply. In fiscal year 2020, water rates increased by approximately 2%, which equates to \$1.98 of the monthly water charges for an average single-family residential customer effective July 1, 2019.

The BWS 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 \$56.9 million in fiscal year 2020 compared to the 46.2 million increase in fiscal year 2019.
- Total assets were \$1.8 billion in fiscal year 2020 and \$1.7 billion in fiscal year 2019, which exceeded liabilities by \$1.2 billion and \$1.1 billion at June 30, 2020 and 2019, respectively.
- The BWS's unrestricted current assets at June 30, 2020 were 5.2 times its related current liabilities compared to 5.5 times at June 30, 2019.
- The BWS's debt to equity ratio was 30.5% and 25.5% at June 30, 2020 and 2019, respectively, indicating the continuance of capacity to issue additional debt.

Overview of the Financial Statements

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 the statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements. The statement of net position presents the resources and obligations of the BWS as of the end of the reporting period. The statement of revenues, expenses and changes in net position presents the changes in net position for the fiscal year then ended, and the resultant ending net position balance. The statement of cash flows present changes in cash and cash equivalents (short-term investments with original maturities of three months or less from the

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2020 and 2019**

date of acquisition), resulting from operating, investing, capital and related financing activities, and non-capital financing activities.

Results of Operations

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(Amounts in thousands)**

	2020	2019	2018	2020 - 2019		2019 - 2018	
				Increase (decrease)	% Change	Increase (decrease)	% Change
Operating revenues	\$ 231,107	\$ 228,662	\$ 232,378	\$ 2,445	1.1%	\$ (3,716)	-1.6%
Operating expenses							
Administrative and general	71,191	72,031	70,494	(840)	-1.2%	1,537	2.2%
Depreciation	45,796	47,266	47,337	(1,470)	-3.1%	(71)	-0.1%
Power and pumping	35,044	35,139	32,065	(95)	-0.3%	3,074	9.6%
Other operating expenses	60,688	49,563	47,850	11,125	22.4%	1,713	3.6%
Total operating expenses	212,719	203,999	197,746	8,720	4.3%	6,253	3.2%
Operating income	18,388	24,663	34,632	(6,275)	-25.4%	(9,969)	-28.8%
Nonoperating revenues (expenses)							
Interest income	7,994	7,549	6,097	445	5.9%	1,452	23.8%
Interest expense	(9,261)	(9,661)	(9,837)	400	-4.1%	176	-1.8%
Others	11,895	10,710	(6,169)	1,185	11.1%	16,879	-273.6%
Total nonoperating revenues	10,628	8,598	(9,909)	2,030	23.6%	18,507	-186.8%
Contributions in aid of construction	27,887	12,976	21,509	14,911	114.9%	(8,533)	-39.7%
Change in net position	\$ 56,903	\$ 46,237	\$ 46,232	\$ 10,666	23.1%	\$ 5	0.0%

Operating revenues for the fiscal year ended June 30, 2020 totaled \$231.1 million, an increase of \$2.4 million or 1.1% from the fiscal year ended June 30, 2019. This was mainly due to the increase in water consumption rates for the single family and multi-family residential customer class. Meter charges went from a flat rate to a monthly charge based on the meter size. Revenues also increased due to the implementation of a monthly standby charge for automatic fire sprinklers which is based on the size of the meter. There was a slight decrease in revenue in April from the non-residential class, possibly due to the COVID-19 shutdown, but flat lined for the remainder of FY20.

Operating revenues for the fiscal year ended June 30, 2019 totaled \$228.7 million, a decrease of \$3.7 million or 1.6% from the fiscal year ended June 30, 2018. This was mainly due to a decrease in agriculture and single family residential water consumption.

Total operating expenses increased by \$8.7 million in fiscal year 2020. Factors contributing to this change are explained below:

- Power and pumping remained relatively consistent in FY 20 at \$35.0 million compared to FY 19 at \$35.1 million. Administrative and general also remained relatively consistent in FY20 at \$71.2 million compared to last year's \$72.0 million.
- Other operating expenses increased by \$11.1 million during fiscal year 2020 mainly due to the increase in transmission and distribution, and maintenance costs.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2020 and 2019**

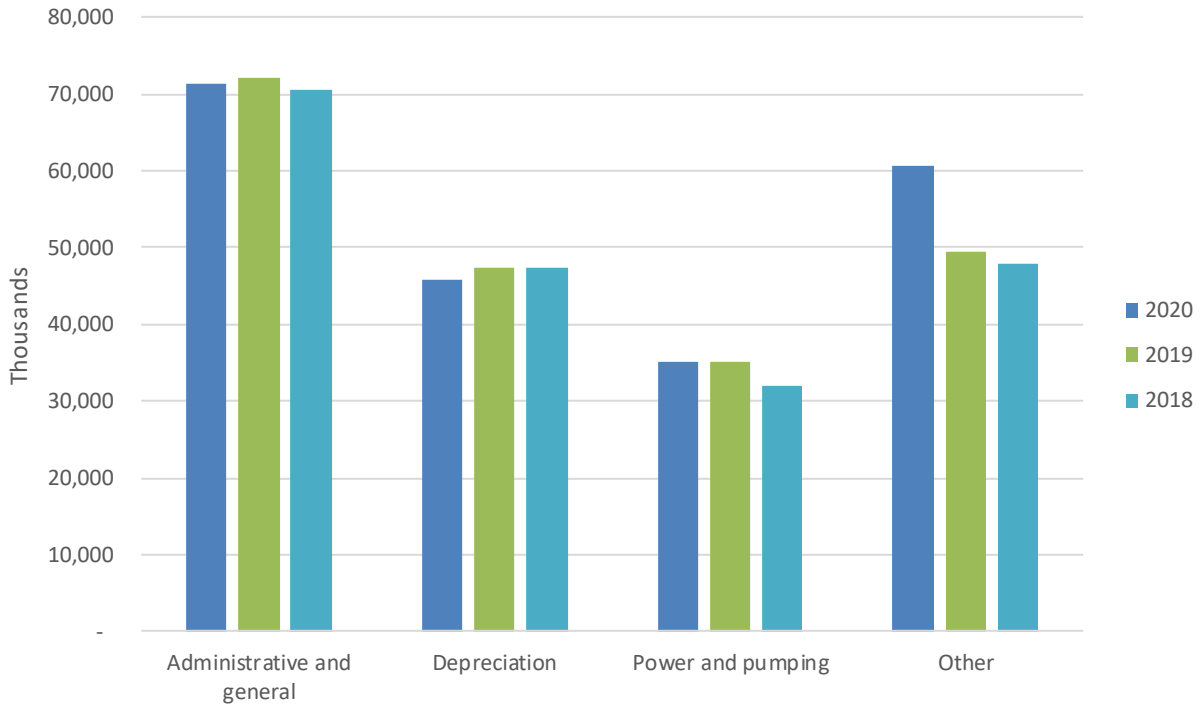
Total operating expenses increased by \$6.2 million in fiscal year 2019. Factors contributing to this change are explained below:

- Power and pumping expenses increased by \$3.1 million in fiscal year 2019 mainly due to increases in electricity costs.
- Other operating expenses increased by \$1.7 million during fiscal year 2019 mainly due to the increase in transmission and distribution costs.

For the fiscal year ended June 30, 2020, net nonoperating revenue increased by \$2.0 million. This was the result of an increase in interest income of \$0.4 million, an increase in net realized and unrealized gain on investments of \$1.4 million, and a decrease in interest expense of \$0.4 million.

For the fiscal year ended June 30, 2019, net nonoperating revenue increased by \$18.5 million. This was the result of an increase in interest income of \$1.4 million and an increase in net realized and unrealized gain on investments of \$17.1 million.

Expenditures by Functional Class



Contributions in aid of construction result from Water System Facilities Charges (WSFC) 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

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2020 and 2019**

construction of \$27.9 million in fiscal year 2020 compared to \$13.0 million in fiscal year 2019. The increase was primarily due to increases in WSFC revenue of \$5.1 million, increases in contributions by private developers of \$4.4 million, and SRF debt principal forgiveness of \$2.9 million. During the fiscal year ended June 30, 2020 the major developments were Kapolei 215' Reservoir No. 2, Kapolei Business Park West Phase 1, and Honolulu Rail Transit Utility Relocation.

The BWS realized contributions in aid of construction of \$13.0 million in fiscal year 2019 compared to \$21.5 million in fiscal year 2018. The decrease was primarily due to decreases in contributions by private developers of \$3.8 million and WSFC revenue of \$3.3 million. During the fiscal year ended June 30, 2019 the major developments were Kalaeloa Boulevard Improvements and Hoopili Phase 3, Parcels 5 and 6.

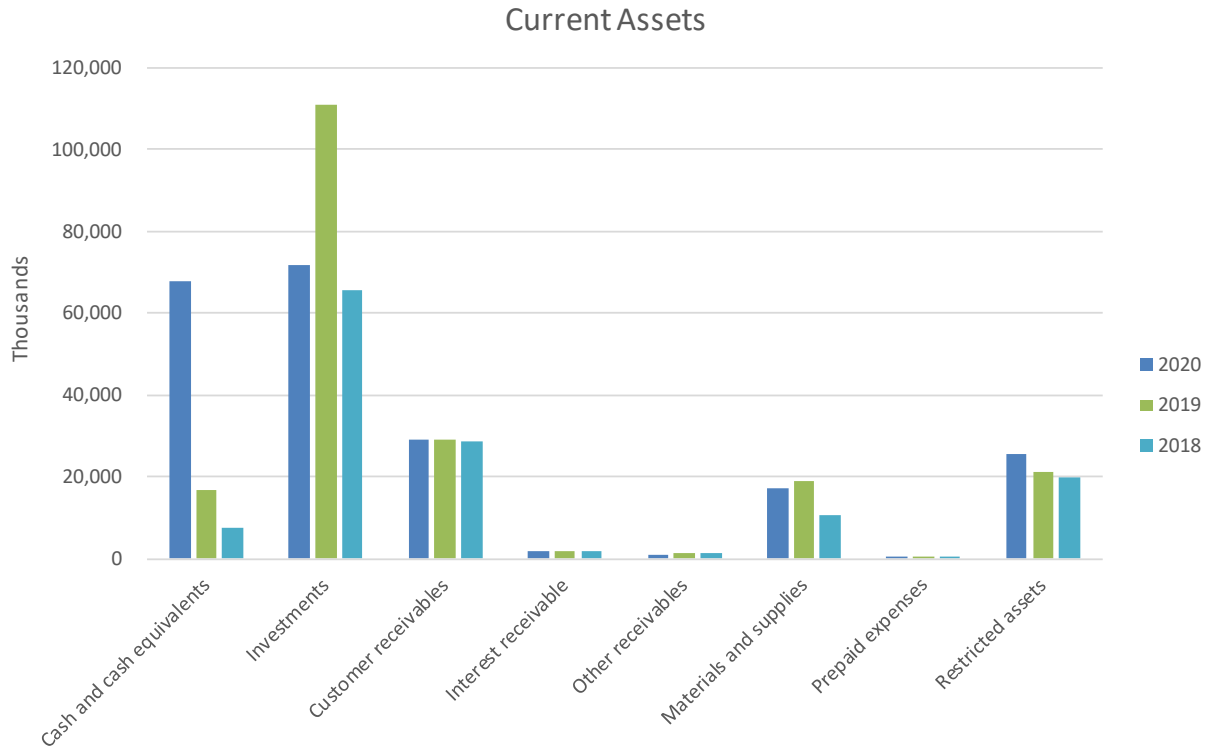
Financial Condition

**CONDENSED STATEMENTS OF NET POSITION
(Amounts in thousands)**

	2020	2019	2018	2020 - 2019		2019 - 2018	
				Increase (decrease)	% Change	Increase (decrease)	% Change
Current assets	\$ 214,591	\$ 200,951	\$ 135,696	\$ 13,640	6.8%	\$ 65,255	48.1%
Noncurrent assets							
Capital assets, net	1,247,700	1,188,906	1,150,029	58,794	4.9%	38,877	3.4%
Investments	306,912	283,878	320,355	23,034	8.1%	(36,477)	-11.4%
Restricted and other assets	75,769	24,351	22,408	51,418	211.2%	1,943	8.7%
Total assets	<u>1,844,972</u>	<u>1,698,086</u>	<u>1,628,488</u>	<u>146,886</u>	8.7%	<u>69,598</u>	4.3%
Deferred outflows of resources	48,195	53,064	57,873	(4,869)	-9.2%	(4,809)	-8.3%
Total assets and deferred outflows of resources	\$ <u>1,893,167</u>	\$ <u>1,751,150</u>	\$ <u>1,686,361</u>	\$ <u>142,017</u>	8.1%	\$ <u>64,789</u>	3.8%
Current liabilities	\$ 62,511	\$ 54,045	\$ 44,731	\$ 8,466	15.7%	\$ 9,314	20.8%
Noncurrent liabilities							
Bonds payable, noncurrent	267,636	213,780	224,342	53,856	25.2%	(10,562)	-4.7%
Notes payable, noncurrent	97,966	78,163	64,255	19,803	25.3%	13,908	21.6%
Net pension liability	114,808	120,348	113,350	(5,540)	-4.6%	6,998	6.2%
Net OPEB liability	73,815	73,128	74,722	687	0.9%	(1,594)	-2.1%
Other liabilities	14,265	11,766	11,993	2,499	21.2%	(227)	-1.9%
Total liabilities	<u>631,001</u>	<u>551,230</u>	<u>533,393</u>	<u>79,771</u>	14.5%	<u>17,837</u>	3.3%
Deferred inflows of resources	11,750	6,408	5,693	5,342	83.4%	715	12.6%
Net position							
Net investment in capital assets	929,869	885,600	861,923	44,269	5.0%	23,677	2.7%
Restricted for capital activity and debt service	29,005	38,677	33,114	(9,672)	-25.0%	5,563	16.8%
Unrestricted	291,542	269,235	252,238	22,307	8.3%	16,997	6.7%
Total net position	<u>1,250,416</u>	<u>1,193,512</u>	<u>1,147,275</u>	<u>56,904</u>	4.8%	<u>46,237</u>	4.0%
Total liabilities, deferred inflows of resources and net position	\$ <u>1,893,167</u>	\$ <u>1,751,150</u>	\$ <u>1,686,361</u>	\$ <u>142,017</u>	8.1%	\$ <u>64,789</u>	3.8%

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2020 and 2019**

The BWS's current assets were 3.4, 3.7, and 3.0 times its related current liabilities as of June 30, 2020, 2019, and 2018, respectively. The ratio decrease at June 30, 2020 was due to an increase in cash, cash equivalents, and investments that were offset by an increase in accounts and contracts payable. The ratio increase at June 30, 2019 was due to an increase in cash, cash equivalents, and investment.



Restricted and other assets increased by \$51.4 million in fiscal year 2020. The increase is primarily due to the receipt of Series 2020A net bond proceeds of \$65.3 million during fiscal year 2020. Restricted and other assets increased by \$1.9 million in fiscal year 2019. The increase is primarily due to an increase in cash and cash equivalents.

Bonds payable increased by \$54.9 million as of June 30, 2020. The increase is also attributed to the issuance of Series 2020A Bonds that resulted in the receipt of net bond proceeds of \$65.3 million during fiscal year 2020. Bonds payable decreased by \$10.3 million as of June 30, 2019. The decrease represents scheduled debt service payments and the amortization of bond premiums during fiscal year 2019.

Notes payable increased by \$21.4 million as of June 30, 2020. The increase is due to the receipt of loan proceeds for new projects utilizing financing from the state revolving fund loan program totaling \$28.6 million. Notes payable increased by \$14.9 million as of June 30, 2019. The increase is primarily due to the receipt of loan proceeds for projects utilizing financing from the state revolving fund loan program totaling \$18.0 million.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2020 and 2019**

The net pension liability decreased by \$5.5 million as of June 30, 2020 which was mainly due to a .09% decrease in the BWS's proportion of the net pension liability. The net pension liability increased by \$7.0 million as of June 30, 2019 which was mainly due to an increase in the BWS's proportionate share of the collective net pension liability and unfavorable differences between expected and actual experience with regard to economic or demographic factors.

The net OPEB liability increased by \$0.6 million as of June 30, 2020, which was mainly due to differences in investment earnings and unfavorable change in assumptions. The net OPEB liability decreased by \$1.6 million as of June 30, 2019, which was mainly due to favorable differences between projected and actual earnings on OPEB plan investments and employer contributions exceeding the minimum required contribution in fiscal year 2018.

Capital Assets and Long-Term Debt

During fiscal years 2020 and 2019, the BWS capitalized \$56.8 million and \$50.9 million, respectively, to its utility plant in service. Major assets added in fiscal year 2020 were Energy Savings Performance Contract, \$8.1 million; Kapolei 215' Reservoir No. 2, \$7.5 million; Kapahulu Water System Improvements, Part I, \$4.7 million; Kamehame Utility Tunnel 36" Main Rehabilitation, \$4.3 million; Kunia Wells II: Remove and Replace GAC Tank Pad Piping, \$3.8 million; and Wilhelmina Rise Water System Improvements, Part V, \$3.7 million.

During fiscal years 2019 and 2018, the BWS capitalized \$50.9 million and \$37.3 million, respectively, to its utility plant in service. Major assets added in fiscal year 2019 were Wilhelmina Rise Water System Improvements, Part IV, \$6.5 million; Energy Savings Performance Contract, \$5.4 million; Kalihi Water System Improvements, Part III, \$4.9 million; Liliha Water System Improvements, \$2.8 million; and Makakilo 920' and Waipahu 228' No. 2 Reservoir Facility Repairs \$2.7 million.

The BWS issues long-term bonds to finance part of its capital improvement program. The BWS has maintained a low debt to equity ratio at 30.5%, 25.5%, and 26.2% for the fiscal years 2020, 2019, and 2018, respectively.

All outstanding bonds have been assigned underlying ratings of AAA from S&P Global 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, 2020 and 2019.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2020 and 2019**

Novel Coronavirus (COVID-19)

The unprecedented outbreak of COVID-19 has caused economic and operational uncertainties for government and the private sectors. As the immediate and full impacts of COVID-19 are unknown at this time, the BWS has taken a conservative approach in budgeting both revenues and expenses for fiscal year 2021. In March and April 2020, there was a drop in water production. However, as of August 2020, production remains within its normal range. There are 2 hotels among the BWS's 10 largest users. Consumption and revenue for those hotels from March 2020 through August 2020 is down 50%. Overall, the stay-at-home/work-at-home order resulted in a redistribution of water demand from offices and businesses to their homes. For July and August of FY 21, BWS has seen a 9% decrease in revenues in the non-residential customer class and an increase of 9% in revenue from the residential customer class. The number of delinquent accounts have not drastically changed. In August 2020, the delinquency rate was at 10.81% compared to the average delinquency rate for 2019 of 11.22%.

To assist with the costs incurred by COVID-19, BWS received CARES funding of approximately \$902K in FY20 and will be requesting for additional fund in FY21.

BWS has adequate working capital reserves to cover operating costs for a sustained period. In addition, because the BWS's CIP is funded 50% with cash, management can defer some capital projects and reallocate those funds to cover current operating costs.

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.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET POSITION
June 30, 2020 and 2019**

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 67,877,735	\$ 16,736,721
Investments	71,832,987	111,033,472
Interest receivable	1,866,206	1,982,363
Customer receivables		
Billed, less allowance for uncollectible accounts of \$3,794,392 in 2020 and \$3,371,847 in 2019	16,925,540	17,354,558
Unbilled	12,082,404	11,654,265
Other receivables, less allowances for uncollectible accounts of \$510,868 in 2020 and 2019	1,014,802	1,397,457
Materials and supplies	17,024,618	19,099,033
Prepaid expenses	378,034	456,446
Restricted assets		
Cash and cash equivalents	25,589,110	21,236,291
Total current assets	<u>214,591,436</u>	<u>200,950,606</u>
Noncurrent assets		
Capital assets		
Infrastructure	1,586,973,234	1,556,510,343
Building and improvements	189,954,834	186,259,899
Equipment and machinery	347,463,706	328,433,517
	2,124,391,774	2,071,203,759
Less accumulated depreciation	(1,118,403,479)	(1,073,891,290)
	1,005,988,295	997,312,469
Land	32,373,064	32,373,064
Construction work in progress	209,338,479	159,220,947
Net capital assets	1,247,699,838	1,188,906,480
Investments	306,911,972	283,877,536
Restricted assets		
Cash and cash equivalents	64,893,617	3,201,881
Investments	10,874,633	21,149,006
Other assets	612	659
Total noncurrent assets	<u>1,630,380,672</u>	<u>1,497,135,562</u>
Total assets	<u>1,844,972,108</u>	<u>1,698,086,168</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt and other	14,780,122	15,572,789
Deferred outflows of resources related to pensions	21,818,025	27,773,118
Deferred outflows of resources related to OPEB	11,596,553	9,718,371
Total deferred outflows of resources	<u>48,194,700</u>	<u>53,064,278</u>
Total assets and deferred outflows of resources	<u>\$ 1,893,166,808</u>	<u>\$ 1,751,150,446</u>

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET POSITION (Continued)
June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
LIABILITIES		
Current liabilities		
Payable from current assets		
Accounts payable	\$ 16,042,971	\$ 14,385,208
Contracts payable, including retainages	13,079,867	11,416,826
Accrued vacation, current portion	2,850,143	2,941,584
Accrued workers' compensation, current portion	1,271,067	1,068,132
Other	<u>3,677,477</u>	<u>2,997,372</u>
Total payable from current assets	<u>36,921,525</u>	<u>32,809,122</u>
Payable from restricted assets		
Contracts payable, including retainages	5,138,173	3,585,739
Accrued interest payable	4,423,920	4,706,312
Bonds payable, current portion	9,910,000	8,820,000
Notes payable, current portion	5,754,780	4,124,240
Refundable advances	<u>362,237</u>	<u>--</u>
Total payable from restricted assets	<u>25,589,110</u>	<u>21,236,291</u>
Total current liabilities	<u>62,510,635</u>	<u>54,045,413</u>
Noncurrent liabilities		
Bonds payable, noncurrent portion	267,636,345	213,780,455
Notes payable, noncurrent portion	97,965,810	78,163,163
Net pension liability	114,807,821	120,348,341
Net OPEB liability	73,815,255	73,127,683
Accrued vacation, noncurrent portion	4,486,874	3,832,552
Accrued workers' compensation	3,530,561	2,780,710
Customer advances	2,348,616	2,414,284
Other	<u>3,898,713</u>	<u>2,737,613</u>
Total noncurrent liabilities	<u>568,489,995</u>	<u>497,184,801</u>
Total liabilities	<u>631,000,630</u>	<u>551,230,214</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	10,283,163	3,450,266
Deferred inflows of resources related to OPEB	<u>1,467,196</u>	<u>2,957,650</u>
Total deferred inflows of resources	<u>11,750,359</u>	<u>6,407,916</u>
NET POSITION		
Net investment in capital assets	929,869,437	885,599,654
Restricted for capital activity and debt service	29,004,758	38,677,184
Unrestricted	<u>291,541,624</u>	<u>269,235,478</u>
Total net position	<u>1,250,415,819</u>	<u>1,193,512,316</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,893,166,808</u>	<u>\$ 1,751,150,446</u>

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Water sales	\$ 228,467,575	\$ 226,347,969
Other, principally contract and service fees	<u>2,639,953</u>	<u>2,313,872</u>
Total operating revenues	<u>231,107,528</u>	<u>228,661,841</u>
OPERATING EXPENSES		
Administrative and general	71,190,600	72,030,601
Depreciation	45,796,106	47,266,015
Power and pumping	35,044,263	35,139,272
Transmission and distribution	33,022,657	25,232,703
Maintenance	14,839,903	11,430,094
Water reclamation	4,986,298	5,313,092
Customers' accounting and collection	4,154,640	4,287,336
Central administrative services expense fees	3,300,000	3,300,000
Source of supply	<u>384,146</u>	<u>--</u>
Total operating expenses	<u>212,718,613</u>	<u>203,999,113</u>
Operating income	<u>18,388,915</u>	<u>24,662,728</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	7,994,046	7,549,495
Interest expense, net of amortization of bond premiums of \$1,845,668 in 2020 and \$1,741,887 in 2019	(9,260,845)	(9,661,066)
Bond issuance costs	(682,715)	--
Loss from disposal of capital assets	(675,481)	(540,882)
Net increase in the fair value of investments	12,327,374	10,866,747
Federal grant revenue	658,355	--
Other	<u>267,177</u>	<u>383,673</u>
Total nonoperating revenues	<u>10,627,911</u>	<u>8,597,967</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>27,886,677</u>	<u>12,976,364</u>
Change in net position	56,903,503	46,237,059
NET POSITION		
Beginning of year	<u>1,193,512,316</u>	<u>1,147,275,257</u>
End of year	\$ <u><u>1,250,415,819</u></u>	\$ <u><u>1,193,512,316</u></u>

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2020 and 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 232,215,173	\$ 227,366,672
Payments to suppliers for goods and services	(92,987,403)	(94,721,939)
Payments to employees for services	(60,448,018)	(58,325,919)
Net cash provided by operating activities	78,779,752	74,318,814
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(89,728,278)	(73,725,603)
Customer payments for capital projects	10,329,332	6,350,292
Federal grants received	1,020,592	--
Net proceeds from bond issuance	65,293,753	--
Principal paid on bonds	(8,820,000)	(8,550,000)
Interest paid on bonds	(8,902,128)	(9,175,023)
Advanced refunding of previously issued debt	(1,083,073)	--
Proceeds from notes payable	28,543,912	18,048,072
Interest paid on notes payable	(957,567)	(789,555)
Principal paid on notes payable	(4,168,725)	(3,195,391)
Net cash used in capital and related financing activities	(8,472,182)	(71,037,208)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(135,927,883)	(145,871,012)
Proceeds from maturity of investments	174,695,679	150,050,772
Interest on investments	8,110,203	7,513,375
Net cash provided by investing activities	46,877,999	11,693,135
Net increase in cash and cash equivalents	117,185,569	14,974,741
CASH AND CASH EQUIVALENTS		
Beginning of year	41,174,893	26,200,152
End of year	\$ 158,360,462	\$ 41,174,893
Reconciliation of cash and cash equivalents to the statement of net position		
Unrestricted	\$ 67,877,735	\$ 16,736,721
Restricted	90,482,727	24,438,172
	\$ 158,360,462	\$ 41,174,893

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2020 and 2019**

	2020	2019
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 18,388,915	\$ 24,662,728
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	47,505,377	48,781,234
Provision for doubtful accounts	1,018,275	990,929
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Customer receivables	(1,017,396)	(1,477,386)
Other receivables	649,832	412,096
Materials and supplies	2,074,415	(8,579,922)
Prepaid expenses and other	78,412	15,392
Deferred outflows of resources related to pensions	5,955,093	4,158,721
Deferred outflows of resources related to OPEB	(1,878,182)	(863,033)
Accounts and contracts payable	2,176,977	1,845,196
Accrued vacation	562,881	(242,144)
Accrued workers' compensation	952,786	299,656
Other liabilities	1,822,872	(1,802,901)
Net pension liability	(5,540,520)	6,998,047
Net OPEB liability	687,572	(1,594,240)
Deferred inflows of resources related to pensions	6,832,897	(925,353)
Deferred inflows of resources related to OPEB	(1,490,454)	1,639,794
Net cash provided by operating activities	\$ 78,779,752	\$ 74,318,814
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in fair value of investments	\$ 10,709,380	\$ 11,662,776
Contributions of capital assets from government agencies, developers and customers that are recorded as contributions in aid of construction	\$ 14,549,677	\$ 7,434,353
Capital asset additions included in contracts and accounts payable at year end	\$ 18,891,700	\$ 16,195,439
Bond proceeds deposited directly with escrow agent for refunding of previously issued debt	\$ 47,231,940	\$ --
Bond issuance costs deducted from bond proceeds	\$ 682,715	\$ --
Amortization of other costs	\$ 47	\$ 47
Amortization of bond premium, net	\$ 1,845,668	\$ 1,741,887
Amortization of deferred loss on refunding	\$ 1,529,163	\$ 1,513,205
Forgiveness of principal due on notes payable	\$ 2,942,000	\$ --

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE A - 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.

Article VII of the Revised Charter of the City and County of Honolulu 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) **Financial Statement Presentation** - The BWS is a component unit of the City (the "primary government"). The accompanying financial statements present only the financial position and activities of the BWS and do not purport to, and do not present the financial position of the City, the changes in its financial position, or its cash flows.
- (2) **Measurement Focus and Basis of Accounting** - The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
- (3) **Use of Estimates** - The preparation of the financial statements in accordance 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, deferred outflows of resources, liabilities, deferred inflows of resources 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 pensions and postretirement benefits. Actual results could differ from those estimates.
- (4) **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.
- (5) **Investments** - Investments are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The cost of securities sold is generally determined by the weighted average method.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (6) **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 past collection experience and the length of time individual receivables are past due. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.
- (7) **Materials and Supplies** - Materials and supplies are stated at weighted average cost (which approximates the first-in, first-out method). The cost of materials and supplies are recorded as expenses when consumed rather than when purchased.
- (8) **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 system revenue bonds and other notes payable.
 - The renewal and replacement account and the reserve release fund 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.
- (9) **Capital Assets** - Capital assets include those assets in excess of \$5,000 for buildings, 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. 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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 plant	20 to 100 years
Pumping plant	20 to 50 years
Water treatment plant	20 to 30 years
Transmission and distribution plant	13-1/3 to 50 years
General plant	5 to 50 years

Gains or losses resulting from the sale, retirement or disposal of capital assets in service are credited or charged to nonoperating revenues (expenses).

- (10) ***Bond Issue Prepaid Insurance Costs, Original Issue Discount or Premium and Deferred Loss on Refunding of Debt*** - Bond issue costs are expensed when incurred, except for prepaid insurance, which are amortized over the life of the respective issue on a straight-line basis. Bond issue prepaid insurance costs are presented as other assets in the statements of net position.

Original issue discounts or premiums are amortized using the straight-line method over the terms of the respective issues. Original issue discounts or premiums are offset against or added to bonds payable in the statements of net position.

Deferred loss on refunding of debt is amortized using the straight-line method over the remaining life of the refunded debt or the life of the new debt, whichever is shorter. The deferred loss on refunding of debt is presented as deferred outflows of resources in the statements of net position.

- (11) ***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, 2020 and 2019, accumulated sick leave aggregated approximately \$19,401,000 and \$18,852,000, 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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (12) **Net Position** - Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is classified in the following three components: net investment in capital assets, restricted for capital activity and debt service, and unrestricted. Net investment in capital assets 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 net investment in capital assets. 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 or enabling legislation. Unrestricted consists of the remaining balance not included in the above categories.
- (13) **Operating Revenues and Expenses** - 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 derived 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.
- (14) **Revenue Recognition** - Charges for water sales are based on usage. The BWS's policy is to bill customers on a cyclical monthly basis. The accrual for unbilled water revenues and related receivables reflected in the accompanying financial statements is based on estimated usage from the latest meter reading date to the end of the fiscal year.
- (15) **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. It also includes the forgiveness of principal due on state revolving fund loans that were used to finance the costs of infrastructure needed to maintain the water system. Contributions in aid of construction are recognized when they are accepted by the BWS and when all applicable eligibility requirements have been met.
- (16) **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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (17) **Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (the "ERS") and additions to/deductions from the ERS's fiduciary net position have been determined using the accrual basis of accounting, which is the same basis as they are reported by the ERS. For this purpose, employer and member contributions are recognized in the period in which the contributions are legally due and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.
- (18) **Postemployment Benefits Other Than Pensions ("OPEB")** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") and additions to/deductions from EUTF's fiduciary net position have been determined on the same basis as they are reported by EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.
- (19) **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.

- (20) **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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
Cyber liability	\$ 3	\$ 50,000

There have been no significant reductions in insurance coverage's from the prior fiscal year.

- (21) **Reclassification** - The previously issued financial statements of the BWS as of June 30, 2019 have been reclassified to correct the components of net position presented in the statements of net position. The reclassification decreased the net investment in capital assets component by \$29,139,679 and increased the restricted for capital activity and debt service and unrestricted components by \$16,529,979 and \$12,609,700, respectively. The reclassification had no effect on total net position as of June 30, 2019 or the change in net position for the fiscal year ended June 30, 2019.
- (22) **New Accounting Pronouncements** - The Government Accounting Standards Board (the "GASB") issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management has determined that this Statement does not have a material impact on the BWS's financial statements.

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on the BWS's financial statements.

NOTE C - CASH AND INVESTMENTS

Cash deposited with the City is maintained by the Department of Budget and Fiscal Services of the City. The City maintains a cash and investment pool that is used by all of the City's Funds and the BWS. 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 of America, 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 and U.S. government agencies securities.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE C - CASH AND INVESTMENTS (Continued)

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.

Custodial Credit Risk - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Excluding cash deposited with the City, all cash, money market mutual funds and investment securities as of June 30, 2020 and 2019 were held in trust by two financial institutions in the State of Hawaii.

All investment securities are registered in the name of the BWS and are not exposed to custodial credit risk. Money market mutual funds are not considered investment securities for purposes of custodial credit risk classification and are not exposed to custodial credit risk. Cash held in trust with these financial institutions are uncollateralized, however, amounts in excess of depository insurance are covered by commercial insurance obtained by each financial institution designed to insure against losses resulting from errors and omissions or fraud.

Credit Risk and Concentration of Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2020 and 2019, all investment securities and money market mutual funds were rated Aaa and Aaa-mf, respectively, by Moody's Investors Services. 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 agencies.

The historical cost and estimated fair value of investments at June 30, 2020 and 2019 consisted of the following:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
U. S. Treasury obligations	\$ 307,193,842	\$ 319,258,382	\$ 334,445,076	\$ 337,750,640
U. S. government agencies	<u>67,727,392</u>	<u>70,361,210</u>	<u>77,625,959</u>	<u>78,309,374</u>
	<u>\$ 374,921,234</u>	<u>\$ 389,619,592</u>	<u>\$ 412,071,035</u>	<u>\$ 416,060,014</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE C - CASH AND INVESTMENTS (Continued)

As of June 30, 2020 and 2019, the credit exposure as a percentage of total investments were as follows:

	2020		2019	
	Percent of Total	Fair Value	Percent of Total	Fair Value
U. S. Treasury obligations	82%	\$ 319,258,382	81%	\$ 337,750,640
U. S. government agencies				
Federal National Mortgage Association	7%	26,020,686	9%	35,996,530
Federal Home Loan Mortgage Corporation	1%	3,683,028	2%	6,974,347
Federal Home Loan Bank	8%	33,346,320	8%	35,338,497
Federal Farm Credit Bank	2%	7,311,176	0%	--
	100%	\$ 389,619,592	100%	\$ 416,060,014

The fair value of investments by contractual maturity at June 30, 2020 and 2019 are shown below:

	Investment Maturities (In Years) at June 30, 2020		
	Fair Value	Less Than 1	1 - 5
U. S. Treasury obligations	\$ 319,258,382	\$ 56,637,691	\$ 262,620,691
U. S. government agencies	70,361,210	17,205,051	53,156,159
	\$ 389,619,592	\$ 73,842,742	\$ 315,776,850

	Investment Maturities (In Years) at June 30, 2019		
	Fair Value	Less Than 1	1 - 5
U. S. Treasury obligations	\$ 337,750,640	\$ 98,880,356	\$ 238,870,284
U. S. government agencies	78,309,374	23,131,037	55,178,337
	\$ 416,060,014	\$ 122,011,393	\$ 294,048,621

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE D - RESTRICTED ASSETS

At June 30, 2020 and 2019, the BWS's restricted assets were comprised of cash, cash equivalents and investments and were held for the following purposes:

	<u>2020</u>	<u>2019</u>
Construction, renewals and replacements	\$ 71,036,203	\$ 5,130,874
Debt service	<u>30,321,157</u>	<u>40,456,304</u>
	<u>\$ 101,357,360</u>	<u>\$ 45,587,178</u>

NOTE E - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets,
- Quoted prices for identical or similar assets or liabilities in markets that are not active,
- Inputs other than quoted prices that are observable for the asset or liability,
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are unobservable for an asset or liability.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE E - FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation techniques used by the BWS to measure fair value:

U.S. Treasury obligations: Valued using quoted prices in active markets for identical assets.

U.S. government agencies obligations: Valued using quoted prices for identical or similar assets in markets that are not active.

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2020 and 2019:

	Assets at Fair Value at June 30, 2020			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 319,258,382	\$ 319,258,382	\$ --	\$ --
U. S. government agencies	<u>70,361,210</u>	<u>--</u>	<u>70,361,210</u>	<u>--</u>
	<u>\$ 389,619,592</u>	<u>\$ 319,258,382</u>	<u>\$ 70,361,210</u>	<u>\$ --</u>
	Assets at Fair Value at June 30, 2019			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 337,750,640	\$ 337,750,640	\$ --	\$ --
U. S. government agencies	<u>78,309,374</u>	<u>--</u>	<u>78,309,374</u>	<u>--</u>
	<u>\$ 416,060,014</u>	<u>\$ 337,750,640</u>	<u>\$ 78,309,374</u>	<u>\$ --</u>

NOTE F - CAPITAL ASSETS

Capital assets activity during the fiscal years ended June 30, 2020 and 2019, were as follows:

	Balance July 1, 2019	Additions	Transfers	Retirements	Balance June 30, 2020
Depreciable assets					
Infrastructure	\$ 1,556,510,343	\$ 14,745,795	\$ 17,370,010	\$ (1,652,914)	\$ 1,586,973,234
Building and improvements	186,259,899	--	3,794,520	(99,585)	189,954,834
Equipment and machinery	<u>328,433,517</u>	<u>4,703,282</u>	<u>16,243,633</u>	<u>(1,916,726)</u>	<u>347,463,706</u>
Total depreciable assets	2,071,203,759	19,449,077	37,408,163	(3,669,225)	2,124,391,774
Less accumulated depreciation	<u>(1,073,891,290)</u>	<u>(47,505,377)</u>	<u>--</u>	<u>2,993,188</u>	<u>(1,118,403,479)</u>
Total depreciable assets - net	997,312,469	(28,056,300)	37,408,163	(676,037)	1,005,988,295
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	<u>159,220,947</u>	<u>99,930,235</u>	<u>(49,812,703)</u>	<u>--</u>	<u>209,338,479</u>
Net capital assets	<u>\$ 1,188,906,480</u>	<u>\$ 71,873,935</u>	<u>\$ (12,404,540)</u>	<u>\$ (676,037)</u>	<u>\$ 1,247,699,838</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE F - CAPITAL ASSETS (Continued)

	Balance July 1, 2018	Additions	Transfers	Retirements	Balance June 30, 2019
Depreciable assets					
Infrastructure	\$ 1,527,922,394	\$ 7,492,403	\$ 22,554,570	\$ (1,459,024)	\$ 1,556,510,343
Building and improvements	176,188,768	--	10,463,776	(392,645)	186,259,899
Equipment and machinery	320,775,882	3,975,782	6,453,500	(2,771,647)	328,433,517
Total depreciable assets	<u>2,024,887,044</u>	<u>11,468,185</u>	<u>39,471,846</u>	<u>(4,623,316)</u>	<u>2,071,203,759</u>
Less accumulated depreciation	(1,029,116,807)	(48,781,234)	--	4,006,751	(1,073,891,290)
Total depreciable assets - net	995,770,237	(37,313,049)	39,471,846	(616,565)	997,312,469
Land	32,373,064	--	--	--	32,373,064
Construction work in progress	121,885,982	85,196,667	(47,861,702)	--	159,220,947
Net capital assets	<u>\$ 1,150,029,283</u>	<u>\$ 47,883,618</u>	<u>\$ (8,389,856)</u>	<u>\$ (616,565)</u>	<u>\$ 1,188,906,480</u>

Depreciation charges allocated to various functions for the fiscal years ended June 30, 2020 and 2019 totaled \$1,709,271 and \$1,515,219, respectively.

NOTE G - BONDS PAYABLE

At June 30, 2020 and 2019, bonds payable consisted of the following:

	<u>2020</u>	<u>2019</u>
Water System Revenue Bonds, Series 2012A, annual principal due ranging from \$2,000,000 to \$8,535,000 through July 1, 2024, with interest ranging from 2.00% to 5.00%.	\$ 27,115,000	\$ 74,870,000
Water System Revenue Bonds, Series 2014A, annual principal due commencing from July 1, 2023, ranging from \$410,000 to \$9,205,000 through July 1, 2036, with interest ranging from 3.00% to 5.00%.	101,655,000	101,655,000
Water System Revenue Bonds, Series 2014B, annual principal due ranging from \$1,540,000 to \$4,790,000 through July 1, 2031, with interest ranging from 2.39% to 3.86%.	25,085,000	29,765,000
Water System Revenue Bonds, Series 2020A, annual principal due ranging from \$1,035,000 to \$3,165,000 through July 1, 2049, with interest ranging from 2.50% to 5.00%.	<u>59,105,000</u>	<u>--</u>
Balance brought forward	<u>\$ 212,960,000</u>	<u>\$ 206,290,000</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE G - BONDS PAYABLE (Continued)

	2020	2019
Balance carried forward	\$ 212,960,000	\$ 206,290,000
Water System Revenue Bonds, Series 2020B, annual principal due ranging from \$580,000 to \$5,370,000 through July 1, 2033, with interest ranging from 1.41% to 2.38%.	<u>47,530,000</u>	<u>—</u>
	260,490,000	206,290,000
Add: unamortized premium	<u>17,056,345</u>	<u>16,310,455</u>
	277,546,345	222,600,455
Less: current portion	<u>9,910,000</u>	<u>8,820,000</u>
Noncurrent portion	<u>\$ 267,636,345</u>	<u>\$ 213,780,455</u>

The BWS had pledged future water revenues, net of specified operating and maintenance expenses, for the security and payment of the water system revenue bonds outstanding. Proceeds from the bonds were used to finance the construction of various components of the water system or to refund the principal amounts of previously issued water system revenue bonds. As of June 30, 2020 and 2019, the total principal and interest remaining to be paid on the bonds totaled \$359,722,000 and \$290,112,000, respectively. Principal and interest paid for the current year and water revenues, net of specified operating and maintenance expenses, were \$17,722,128 and \$17,725,023, respectively.

The BWS' outstanding revenue bonds contain a provision that in the event of a default the holders of not less than 25% of the bonds may declare the principal and interest due immediately. An event of default includes, but is not limited to, the following situations: failure to pay the principal and interest due, failure to punctually perform any of the covenants, agreements or conditions of the resolution, and bankruptcy. The BWS has covenanted and agreed to maintain the water system in good repair, to fix rates and charges sufficient to meet the Net Revenue Requirement, not to dispose of the properties comprising the water system, to maintain and keep proper books, and other actions consistent with conducting the business of the water system in an efficient and economical manner.

In March 2020 the BWS issued \$47,530,000 in Water System Revenue Bonds, Series 2020B, to advance refund \$43,615,000 of outstanding Series 2012A bonds with interest ranging from 4.5% to 5.0%. The net proceeds of \$47,231,940 (after payment of \$298,060 in bond issuance costs) plus an additional \$1,079,884 of Series 2012A debt service reserve fund monies were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2012A bonds. As a result, \$43,615,000 in Series 2012A bonds are considered to be defeased and the liability for those bonds has been removed from the statements of net position as of June 30, 2020.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE G - BONDS PAYABLE (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$718,163. This difference, reported in the accompanying financial statements as deferred outflows of resources, is being charged to operations through fiscal year 2031. The BWS completed the advance refunding to reduce its total debt service payments over the next 14 years by \$7,535,785 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5,259,514.

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.

Debt service requirements on bonds payable at June 30, 2020 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 9,910,000	\$ 8,964,000	\$ 18,874,000
2022	11,065,000	9,331,000	20,396,000
2023	11,750,000	8,831,000	20,581,000
2024	12,520,000	8,277,000	20,797,000
2025	13,090,000	7,693,000	20,783,000
2026 - 2030	73,645,000	30,218,000	103,863,000
2031 - 2035	71,870,000	15,676,000	87,546,000
2036 - 2040	28,880,000	5,876,000	34,756,000
2041 - 2045	15,650,000	3,626,000	19,276,000
2046 - 2050	<u>12,110,000</u>	<u>740,000</u>	<u>12,850,000</u>
Total	\$ <u>260,490,000</u>	\$ <u>99,232,000</u>	\$ <u>359,722,000</u>

NOTE H - NOTES PAYABLE

At June 30, 2020 and 2019, notes payable from direct borrowings consisted of the following:

	<u>2020</u>	<u>2019</u>
Notes payable to Department of Health (DOH):		
Note payable in semi-annual installments of approximately \$150,500, including interest and loan fees at 1.50% per annum, due May 2034.	\$ <u>3,525,273</u>	\$ <u>3,767,710</u>
Balance brought forward	\$ <u>3,525,273</u>	\$ <u>3,767,710</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE H - NOTES PAYABLE (Continued)

	<u>2020</u>	<u>2019</u>
Balance carried forward	\$ 3,525,273	\$ 3,767,710
Note payable in semi-annual installments of approximately \$149,600, including interest and loan fees at 1.50% per annum, due May 2034.	3,501,824	3,742,675
Note payable in semi-annual installments of approximately \$142,900, including interest and loan fees at 1.50% per annum, due November 2034.	3,558,475	3,794,503
Non-interest bearing note payable in semi-annual installments of approximately \$207,300, including loan fees at 1.00% per annum, due November 2034.	5,161,473	5,517,437
Non-interest bearing note payable in semi-annual installments of approximately \$785,300, including loan fees at 1.00% per annum, due April 2034.	18,954,499	20,308,392
Non-interest bearing note payable in semi-annual installments of approximately \$244,000, including loan fees at 1.00% per annum, due December 2037.	8,220,611	8,465,913
Non-interest bearing note payable in semi-annual installments of approximately \$381,400, including loan fees at 1.00% per annum, due February 2039.	26,721,419	23,157,941
Note payable in semi-annual installments of approximately \$148,300, including interest and loan fees at 1.50% per annum, due October 2036.	<u>4,318,459</u>	<u>4,547,788</u>
Balance brought forward	\$ <u>73,962,033</u>	\$ <u>73,302,359</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE H - NOTES PAYABLE (Continued)

	<u>2020</u>	<u>2019</u>
Balance carried forward	\$ 73,962,033	\$ 73,302,359
Note payable in semi-annual installments of approximately \$231,800, including interest and loan fees at 1.25% per annum, due October 2038.	7,631,670	8,000,000
Note payable in semi-annual installments of approximately \$459,600, including interest and loan fees at 1.75% per annum, due October 2039. In fiscal year 2020, principal of \$1,221,400 was forgiven by the DOH.	13,778,600	--
Note payable in semi-annual installments of approximately \$114,100, including interest and loan fees at 0.25% per annum, due December 2040. In fiscal year 2020, principal of \$1,230,600 was forgiven by the DOH.	4,156,814	--
Note payable in semi-annual installments of approximately \$155,000, including interest and loan fees at 2.15% per annum, due September 2041. In fiscal year 2020, principal of \$490,000 was forgiven by the DOH.	3,345,746	--
Notes payable to other lenders:		
Note payable in monthly installments of approximately \$15,700, including interest at 5.0%, due September 2025.	<u>845,727</u>	<u>985,044</u>
	103,720,590	82,287,403
Less current maturities	<u>5,754,780</u>	<u>4,124,240</u>
	<u>\$ 97,965,810</u>	<u>\$ 78,163,163</u>

The notes payable to the Department of Health are state revolving fund loans and are collateralized by net revenue of the BWS. The BWS' outstanding state revolving fund loans contain a provision that in the event of default the outstanding amounts become due immediately with the consent of the majority of the holders of the BWS' revenue bonds. An event of default includes, but is not limited to, the following situations: failure to pay the principal and interest due, failure to punctually perform any of the covenants, agreements or conditions of the resolution, and bankruptcy. The BWS has covenanted and agreed to maintain the water system in good repair, to fix rates and charges sufficient to meet the Net Revenue Requirement, not to dispose of the properties comprising the water system, to maintain and keep proper books, and other actions consistent with conducting the business of the water system in an efficient and economical manner.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE H - NOTES PAYABLE (Continued)

Debt service requirements on notes payable from direct borrowings at June 30, 2020 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Loan Fee	Total
2021	\$ 5,755,000	\$ 266,000	\$ 1,005,000	\$ 7,026,000
2022	5,885,000	265,000	948,000	7,098,000
2023	5,938,000	245,000	891,000	7,074,000
2024	5,992,000	225,000	834,000	7,051,000
2025	6,047,000	203,000	776,000	7,026,000
2026-2030	30,096,000	764,000	2,997,000	33,857,000
2031-2035	29,129,000	413,000	1,484,000	31,026,000
2036-2040	14,879,000	107,000	325,000	15,311,000
	<u>\$ 103,721,000</u>	<u>\$ 2,488,000</u>	<u>\$ 9,260,000</u>	<u>\$ 115,469,000</u>

NOTE I - LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal years ended June 30, 2020 and 2019 are as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Bonds payable	\$ 206,290,000	\$ 106,635,000	\$ (52,435,000)	\$ 260,490,000	\$ 9,910,000
Add: unamortized premium	16,310,455	6,573,408	(5,827,518)	17,056,345	--
Total bonds payable	222,600,455	113,208,408	(58,262,518)	277,546,345	9,910,000
Notes payable	82,287,403	28,543,912	(7,110,725)	103,720,590	5,754,780
Accrued vacation	6,774,136	3,413,024	(2,850,143)	7,337,017	2,850,143
Accrued workers' compensation	3,848,842	1,835,004	(882,218)	4,801,628	1,271,067
Customer advances	2,414,284	10,660,105	(10,725,773)	2,348,616	--
Other	2,737,613	2,565,403	(1,404,303)	3,898,713	--
	<u>\$ 320,662,733</u>	<u>\$ 160,225,856</u>	<u>\$ (81,235,680)</u>	<u>\$ 399,652,909</u>	<u>\$ 19,785,990</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE I - LONG-TERM LIABILITIES (Continued)

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Current Portion
Bonds payable	\$ 214,840,000	\$ --	\$ (8,550,000)	\$ 206,290,000	\$ 8,820,000
Add: unamortized premium	<u>18,052,342</u>	<u>--</u>	<u>(1,741,887)</u>	<u>16,310,455</u>	<u>--</u>
Total bonds payable	232,892,342	--	(10,291,887)	222,600,455	8,820,000
Notes payable	67,434,722	18,048,072	(3,195,391)	82,287,403	4,124,240
Accrued vacation	7,016,280	2,699,440	(2,941,584)	6,774,136	2,941,584
Accrued workers' compensation	3,549,186	1,381,107	(1,081,451)	3,848,842	1,068,132
Customer advances	1,606,003	6,441,377	(5,633,096)	2,414,284	--
Other	<u>3,704,937</u>	<u>1,404,304</u>	<u>(2,371,628)</u>	<u>2,737,613</u>	<u>--</u>
	<u>\$ 316,203,470</u>	<u>\$ 29,974,300</u>	<u>\$ (25,515,037)</u>	<u>\$ 320,662,733</u>	<u>\$ 16,953,956</u>

NOTE J - NET POSITION

The BWS's net position consisted of the following as of June 30, 2020 and 2019:

	2020	2019
Net investment in capital assets		
Capital assets, net	\$ 1,247,699,838	\$ 1,188,906,480
Deferred loss on refunding of debt	14,761,789	15,572,789
Less: water system revenue bonds payable	(277,546,345)	(222,600,455)
Less: notes payable	(103,720,590)	(82,287,403)
Less: contracts and accounts payable attributable to capital assets	(18,891,700)	(16,195,439)
Unspent debt proceeds	<u>67,566,445</u>	<u>2,203,682</u>
	<u>929,869,437</u>	<u>885,599,654</u>
Restricted for capital activity and debt service		
Restricted cash and cash equivalents	90,482,727	24,438,172
Restricted investments	10,874,633	21,149,006
Less: unspent debt proceeds	(67,566,445)	(2,203,682)
Less: accrued interest payable	(4,423,920)	(4,706,312)
Less: refundable advances	<u>(362,237)</u>	<u>--</u>
	<u>29,004,758</u>	<u>38,677,184</u>
Unrestricted	<u>291,541,624</u>	<u>269,235,478</u>
	<u>\$ 1,250,415,819</u>	<u>\$ 1,193,512,316</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE K - LEASES

The BWS 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 the BWS and the lessor. Rent expense under this lease totaled \$159,000 for each of the fiscal years ended June 30, 2020 and 2019.

The BWS also 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 through December 2031. The agreements are generally based on fixed annual amounts, with provisions for increases.

The future minimum rental payments and revenue from these operating leases at June 30, 2020 were as follows:

Fiscal Year Ending June 30,	Future Minimum Rental Payments	Future Minimum Rental Revenue
2021	\$ (159,000)	\$ 123,000
2022	(159,000)	113,000
2023	(159,000)	104,000
2024	(159,000)	100,000
2025	(159,000)	100,000
2026-2030	(33,000)	500,000
2031-2035	--	150,000
	\$ (828,000)	\$ 1,190,000

NOTE L - 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. For the fiscal years ended June 30, 2020 and 2019 fees related to these services totaled \$2,656,182 and \$2,559,109, 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 totaled \$3,300,000 for the fiscal years ended June 30, 2020 and 2019.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE L - RELATED PARTY TRANSACTIONS (Continued)

As of June 30, 2020 and 2019, amounts due from the City for water charges totaled \$1,876,582 and \$2,059,213, respectively, and are included in customer receivables in the statements of net position.

The BWS has entered into several agreements with the City for joint capital projects. The BWS received \$1,500,000 in advances from the City during each of the fiscal years ended June 30, 2020 and 2019. Unexpended advanced funds totaled \$2,513,309 and \$1,013,309 as of June 30, 2020 and 2019, respectively, and are included in other liabilities in the statements of net position.

In fiscal year 2020, the BWS received \$902,356 in Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") funds from the City. These funds must be used for necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019. The BWS expended \$540,119 as of June 30, 2020; unspent amounts as of June 30, 2020 totaling \$362,237 are presented as refundable advances in the statements of net position.

NOTE M - EMPLOYEE BENEFIT PLANS

Pension Plan

Plan description. The ERS is a cost-sharing, multiple-employer public employee retirement system established as a defined benefit pension plan to administer a pension benefits program for all eligible employees of the state and counties of Hawaii. Benefit terms, eligibility, and contribution requirements are established by Chapter 88 of the Hawaii Revised Statutes and can be amended through legislation.

The ERS provides retirement, disability and death benefits that are covered by the provisions of the noncontributory, contributory and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Noncontributory Class

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- *Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension.

Contributory Class for Employees Hired Prior to July 1, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

- *Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Employees Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* - Disability and benefits for contributory class members hired after June 30, 2012 are generally the same as those for contributory class members hired June 30, 2012 and prior.

Hybrid Class for Employees Hired Prior to July 1, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

- *Death Benefits* - For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Employees Hired After June 30, 2012

- *Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions. The employer contribution rate is a fixed percentage of compensation. The employer contribution rate for general employees was 22% and 19% for the fiscal years ended June 30, 2020 and 2019, respectively. For the fiscal years ended June 30, 2020 and 2019, contributions to the pension plan from the BWS totaled \$9,411,347 and \$7,387,857, respectively.

The employer is required to make all contributions for noncontributory members. For contributory class employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary. For contributing class employees hired after June 30, 2012, general employees are required to contribute 9.8% of their salary. Hybrid class members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid class members hired after June 30, 2012 are required to contribute 8.0% of their salary.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020 and 2019, the BWS reported a liability of \$114,807,821 and \$120,348,341, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The BWS's proportion of the net pension liability was based on the actual employer contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2019 and 2018, the BWS's proportion was 0.81% and 0.90%, respectively, which was a change of -0.09% and 0.02% from its proportion measured as of June 30, 2018 and 2017, respectively.

For the fiscal years ended June 30, 2020 and 2019, the BWS recognized pension expense of \$16,642,432 and \$17,626,234, respectively. At June 30, 2020 and 2019, the BWS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,008,709	\$ 229,779
Changes of assumptions	7,816,545	--
Net difference between projected and actual earnings on pension plan investments	--	315,151
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,581,424	9,738,233
Employer contributions subsequent to the measurement date	9,411,347	--
	\$ 21,818,025	\$ 10,283,163

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,170,789	\$ 754,112
Changes of assumptions	12,975,494	--
Net difference between projected and actual earnings on pension plan investments	--	621,753
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,238,978	2,074,401
Employer contributions subsequent to the measurement date	<u>7,387,857</u>	<u>--</u>
	<u>\$ 27,773,118</u>	<u>\$ 3,450,266</u>

At June 30, 2020, the BWS reported \$9,411,347 of deferred outflows of resources related to pensions resulting from BWS contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2020 will be recognized in pension expense as follows:

Fiscal Year Ended June 30:	Net Deferred Outflows (Inflows)
2021	\$ 3,742,588
2022	610,554
2023	(684,203)
2024	(1,024,724)
2025	<u>(520,700)</u>
	<u>\$ 2,123,515</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Actuarial assumptions. The total pension liability in the June 30, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Inflation	2.50%	2.50%
Investment rate of return, including inflation	7.00%	7.00%
Salary increases, including inflation		
Police and fire employees	5.00% to 7.00%	5.00% to 7.00%
General employees	3.50% to 6.50%	3.50% to 6.50%
Teachers	3.75% to 5.75%	3.75% to 5.75%

Mortality rates used in the actuarial valuation as of June 30, 2019 and 2018 were based on the following:

Active members - Multiples of the RP 2014 mortality table for active employees based on the occupation of the member.

Healthy retirees - 2019: The 2019 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2019 and with multipliers based on plan and group experience. 2018: The 2016 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2016 and with multipliers based on plan and group experience.

Disabled retirees - 2019: Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2019. Minimum mortality rate of 3.5% for males and 2.5% for females. 2018: Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2016. Minimum mortality rate of 3.5% for males and 2.5% for females.

The actuarial assumptions used in the actuarial valuation as of June 30, 2019 was based on the results of an experience study as of June 30, 2018, with most of the assumptions based on the period from July 1, 2013 through June 30, 2018. The actuarial assumptions used in the actuarial valuation as of June 30, 2018 was based on the results of an actuarial experience study for the five-year period ended June 30, 2015.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

The long-term expected rate of return on pension plan investments, based on ERS' investment consultant, 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. The target allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2019 and 2018 are summarized in the following tables:

Strategic Allocation (Risk-Based Classes)	June 30, 2019		
	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return *
Broad growth	63.00%	7.65%	5.40%
Principal protection	7.00%	3.00%	0.75%
Real return	10.00%	4.55%	2.30%
Crisis risk offset	20.00%	5.15%	2.90%
	100.00%		

* Uses an expected inflation of 2.25%

Strategic Allocation (Risk-Based Classes)	June 30, 2018		
	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return *
Broad growth	63.00%	7.10%	4.85%
Principal protection	7.00%	2.50%	0.25%
Real return	10.00%	4.10%	1.85%
Crisis risk offset	20.00%	4.60%	2.35%
	100.00%		

* Uses an expected inflation of 2.25%

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Discount rate. The discount rate used to measure the total pension liability at June 30, 2020 and 2019 was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the BWS's proportionate share of the net pension liability to changes in the discount rate. The following presents the BWS's proportionate share of the net pension liability calculated as of the fiscal years ended June 30, 2020 and 2019 using the discount rate of 7.00%, as well as what the BWS's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2020		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Proportionate share of the net pension liability	\$ <u>148,949,493</u>	\$ <u>114,807,821</u>	\$ <u>90,226,450</u>
	June 30, 2019		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Proportionate share of the net pension liability	\$ <u>156,493,555</u>	\$ <u>120,348,341</u>	\$ <u>90,552,169</u>

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at ers.ehawaii.gov.

Payable to the Pension Plan

At June 30, 2020 and 2019, the amounts payable to the ERS totaled \$1,454,111 and \$714,455, respectively, which consists of statutorily required employer contributions for the months of June 2020 and 2019, respectively, and excess pension costs required by the HRS for fiscal years 2020 and 2019, respectively.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Postemployment Benefits Other Than Pensions (OPEB)

General Information about the OPEB Plan

Plan description. Chapter 87A of the Hawaii Revised Statutes (“HRS”) established the EUTF, an agent multiple-employer defined benefit plan, which provides a single delivery system of health and other benefits for state and county workers, retirees and their eligible dependents. The EUTF issues a stand-alone financial report that is available to the public on its website at <https://eutf.hawaii.gov>.

Benefits provided. Chapter 87A of the HRS grants the authority to establish and amend the benefit terms to the board of trustees of the EUTF. The EUTF currently provides medical, prescription drug, dental, vision, chiropractic, supplemental medical and prescription drug, and group life insurance benefits for retirees and their dependents. The following table provides a summary of the number of employees covered by the benefits terms as of July 1, 2019 and 2018:

	2020	2019
Inactive employees or beneficiaries currently receiving benefits	582	592
Inactive employees entitled but not yet receiving benefits	54	52
Active employees	579	568
	1,215	1,212

Contributions. The BWS’s contribution levels are established by Chapter 87A of the HRS. For the fiscal years ended June 30, 2020 and 2019, the BWS was required to contribute a minimum amount equal to 100% of the annual required contribution (“ARC”), as determined by an actuary retained by the board of trustees of the EUTF. The ARC represents a level of funding that is sufficient to cover, 1) the normal cost, which is the cost of the other postemployment benefits attributable to the current year of service; and 2) an amortization payment, which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next thirty years. For the fiscal years ended June 30, 2020 and 2019, contributions to the OPEB plan from the BWS totaled \$8,165,000 and \$7,945,000, respectively, which resulted in an average contribution rate of approximately 20.7% and 20.0%, respectively, of covered-employee payroll.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

For employees hired before July 1, 1996, the BWS pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents. The BWS's contribution is based on the plan selected by the retiree (single, two-party, or family plans).

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than 10 years of service, the BWS makes no contributions. For those retiring with at least 10 years of service but fewer than 15 years of service, the BWS pays 50% of the base monthly contribution. For employees retiring with at least 15 years of service but fewer than 25 years of service, the BWS pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the BWS pays 100% of the base monthly contribution. The BWS's contribution is based on the plan selected by the retiree (single, two-party, or family plans).

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the BWS makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the BWS pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the BWS pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the BWS pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. The BWS's contribution is based on the single plan base monthly contribution. Retirees can elect family coverage but must pay the difference.

Net OPEB Liability

The BWS's net OPEB liability as of June 30, 2020 and 2019 was measured as of July 1, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates.

Actuarial assumptions. The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO	Initial rate of 8.00%, declining to a rate of 4.86% after 12 years
HMO	Initial rate of 8.00%, declining to a rate of 4.86% after 12 years

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Part B & base monthly contribution	Initial rate of 5.00%, declining to a rate of 4.70% after 11 years
Dental	Initial rate of 5.00% for first two years, followed by 4.00%
Vision	Initial rates of 0.00% for first two years, followed by 2.50%
Life insurance	0.00%

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO	Initial rates of 10.00%, declining to a rate of 4.86% after 13 years
HMO	Initial rate of 10.00%, declining to a rate of 4.86% after 13 years
Part B & base monthly contribution	Initial rates of 4.00% and 5.00%, declining to a rate of 4.70% after 12 years
Dental	Initial rate of 5.00% for first three years, followed by 4.00%
Vision	Initial rates of 0.00% for first three years, followed by 2.50%
Life insurance	0.00%

Mortality rates used in the actuarial valuation as of July 1, 2019 and 2018 were based on the following:

Active members - Multiples of the RP 2014 mortality table for active employees based on the occupation of the member.

Healthy retirees - 2019: The 2019 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2019 and with multipliers based on plan and group experience. 2018: The 2016 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2016 and with multipliers based on plan and group experience.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Disabled retirees - 2019: Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2019. Minimum mortality rate of 3.5% for males and 2.5% for females. 2018: Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2016. Minimum mortality rate of 3.5% for males and 2.5% for females.

The actuarial assumptions used in the actuarial valuation as of June 30, 2019 was based on the results of an experience study as of June 30, 2018, with most of the assumptions based on the period from July 1, 2013 through June 30, 2018. The actuarial assumptions used in the actuarial valuation as of June 30, 2018 was based on the results of an actuarial experience study for the five-year period ended June 30, 2015.

The long-term expected rate of return on OPEB 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 OPEB 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of July 1, 2019 and 2018 are summarized in the following table:

Asset Class	2020		2019	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Non-U.S. equity	17.00%	6.90%	17.00%	6.50%
U.S. equity	15.00%	5.35%	15.00%	5.05%
Private equity	10.00%	8.80%	10.00%	8.65%
Core real estate	10.00%	3.90%	10.00%	4.10%
Trend following	9.00%	3.25%	9.00%	3.00%
U.S. microcap	7.00%	7.30%	7.00%	7.00%
Global options	7.00%	4.75%	7.00%	4.50%
Private credit	6.00%	5.60%	6.00%	5.25%
Long treasuries	6.00%	2.00%	6.00%	1.90%
Alternate risk premia	5.00%	2.75%	5.00%	2.45%
TIPS	5.00%	1.20%	5.00%	0.75%
Core bonds	3.00%	1.50%	3.00%	1.30%
	<u>100.00%</u>		<u>100.00%</u>	

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Discount rate. The discount rate used to measure the total OPEB liability at June 30, 2020 and 2019 was 7.00%. The projection of cash flows used to determine the discount rate assumed that BWS contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

The following schedules present the changes in the net OPEB liability for the fiscal years ending June 30, 2020 and 2019:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2019	\$ <u>153,014,513</u>	\$ <u>79,886,830</u>	\$ <u>73,127,683</u>
Changes for the fiscal year:			
Service cost	2,598,017	--	2,598,017
Interest on the total OPEB liability	10,592,452	--	10,592,452
Difference between expected and actual experience	(28,736)	--	(28,736)
Changes of assumptions	1,247,028	--	1,247,028
Contributions - employer	--	7,945,000	(7,945,000)
Net investment income	--	3,430,974	(3,430,974)
Benefit payments	(5,985,550)	(5,985,550)	--
Administrative expense	--	(25,068)	25,068
Other	--	<u>2,370,283</u>	<u>(2,370,283)</u>
Net changes	<u>8,423,211</u>	<u>7,735,639</u>	<u>687,572</u>
Balance at June 30, 2020	\$ <u>161,437,724</u>	\$ <u>87,622,469</u>	\$ <u>73,815,255</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2018	\$ <u>146,389,649</u>	\$ <u>71,667,726</u>	\$ <u>74,721,923</u>
Changes for the fiscal year:			
Service cost	2,480,098	--	2,480,098
Interest on the total OPEB liability	10,129,142	--	10,129,142
Difference between expected and actual experience	(2,312,485)	--	(2,312,485)
Changes of assumptions	2,183,447	--	2,183,447
Contributions - employer	--	8,855,338	(8,855,338)
Net investment income	--	5,235,037	(5,235,037)
Benefit payments	(5,855,338)	(5,855,338)	--
Administrative expense	--	(15,933)	15,933
Other	--	--	--
Net changes	<u>6,624,864</u>	<u>8,219,104</u>	<u>(1,594,240)</u>
Balance at June 30, 2019	\$ <u>153,014,513</u>	\$ <u>79,886,830</u>	\$ <u>73,127,683</u>

Sensitivity of the net OPEB Liability to changes in the discount rate. The following presents the net OPEB liability of the BWS, as well as what the BWS's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	June 30, 2020		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
	(6.00%)	(7.00%)	(8.00%)
Net OPEB Liability	\$ <u>98,004,905</u>	\$ <u>73,815,255</u>	\$ <u>54,701,539</u>
	June 30, 2019		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
	(6.00%)	(7.00%)	(8.00%)
Net OPEB Liability	\$ <u>96,267,884</u>	\$ <u>73,127,683</u>	\$ <u>54,940,141</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Sensitivity of the net OPEB Liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the BWS, as well as what the BWS's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	June 30, 2020		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ <u>54,216,408</u>	\$ <u>73,815,255</u>	\$ <u>98,973,632</u>
	June 30, 2019		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ <u>54,329,692</u>	\$ <u>73,127,683</u>	\$ <u>97,393,040</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal years ended June 30, 2020 and 2019, the BWS recognized OPEB expense of \$5,483,936 and \$7,127,521, respectively. At June 30, 2020 and 2019, the BWS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ 1,467,196
Changes of assumptions	2,375,747	--
Net difference between projected and actual earnings on pension plan investments	1,055,806	--
Employer contributions subsequent to the measurement date	<u>8,165,000</u>	<u>--</u>
	\$ <u>11,596,553</u>	\$ <u>1,467,196</u>

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ 1,878,175
Changes of assumptions	1,773,371	--
Net difference between projected and actual earnings on pension plan investments	--	1,079,475
Employer contributions subsequent to the measurement date	7,945,000	--
	\$ 9,718,371	\$ 2,957,650

At June 30, 2020 the BWS reported \$8,165,000 as deferred outflows of resources related to OPEB resulting from BWS contributions subsequent to the measurement date, which will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2020 will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30:	Net Deferred Outflows
2021	\$ 298,463
2022	298,463
2023	627,928
2024	667,066
2025	72,437
	\$ 1,964,357

NOTE N - COMMITMENTS AND CONTINGENCIES

Contract Commitments

Commitments, primarily for capital improvements, approximated \$334,970,996 and \$260,328,698 as of June 30, 2020 and 2019, respectively. Such amounts are to be funded by operating revenues, contributed capital, cash and investments on hand.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019**

NOTE N - COMMITMENTS AND CONTINGENCIES (Continued)

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. The BWS provides reserves for claims not covered by insurance that in the opinion of management 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.

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

Safe Drinking Water

The BWS is subject to the requirements of the Safe Drinking Water Act (the "Act"), which is administered by the State 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.

NOTE O - COVID-19

On March 11, 2020 the World Health Organization declared the outbreak of novel coronavirus disease (COVID-19) as a pandemic, which has led to an economic downturn on a global scale that has created significant uncertainty, volatility, and disruption across economies and financial markets. The pandemic has also resulted in federal, state, and local governments and private entities mandating various restrictions, including travel and business restrictions, temporary closures of nonessential businesses, and wide-sweeping quarantines and stay-at-home orders. While the disruption caused by COVID-19 is expected to be temporary, there is uncertainty around the duration and severity of this pandemic. The related financial impact on the BWS's financial statements cannot be reasonably determined at this time.

REQUIRED SUPPLEMENTARY INFORMATION

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Last Ten Fiscal Years ***

Measurement Period Ended	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a %age of Covered Payroll	Plan Fiduciary Net Position as a %age of the Total Pension Liability
June 30, 2019	0.81%	\$ 114,807,821	\$ 38,390,927	299%	54.87%
June 30, 2018	0.90%	\$ 120,348,341	\$ 36,816,067	327%	55.48%
June 30, 2017	0.88%	\$ 113,350,294	\$ 35,912,898	316%	54.80%
June 30, 2016	0.87%	\$ 116,342,916	\$ 34,536,085	337%	51.28%
June 30, 2015	0.93%	\$ 81,526,553	\$ 33,412,761	244%	62.42%
June 30, 2014	0.91%	\$ 73,141,824	\$ 32,202,276	227%	63.92%
June 30, 2013	0.78%	\$ 69,992,291	\$ 29,761,149	235%	57.96%

* This schedule is intended to present information for ten years, as of the measurement date of the collective net pension liability for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information.

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF CONTRIBUTIONS (PENSION)
Last Ten Fiscal Years**

Fiscal Year Ended	Statutorily Required Contribution	Contributions in Relation to Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a %age of Covered Payroll
June 30, 2020	\$ 9,411,347	\$ 9,411,347	\$ --	\$ 39,537,387	23.8%
June 30, 2019	\$ 7,387,857	\$ 7,387,857	\$ --	\$ 38,390,927	19.2%
June 30, 2018	\$ 7,561,614	\$ 7,561,614	\$ --	\$ 36,816,067	20.5%
June 30, 2017	\$ 6,885,401	\$ 6,885,401	\$ --	\$ 35,912,898	19.2%
June 30, 2016	\$ 6,647,884	\$ 6,647,884	\$ --	\$ 34,536,085	19.2%
June 30, 2015	\$ 6,686,641	\$ 6,686,641	\$ --	\$ 33,412,761	20.0%
June 30, 2014	\$ 5,931,238	\$ 5,931,238	\$ --	\$ 32,202,276	18.4%
June 30, 2013	\$ 4,604,149	\$ 4,604,149	\$ --	\$ 29,761,149	15.5%
June 30, 2012	\$ 4,404,845	\$ 4,404,845	\$ --	\$ 29,353,916	15.0%
June 30, 2011	\$ 4,497,292	\$ 4,497,292	\$ --	\$ 29,981,949	15.0%

See accompanying notes to required supplementary information.

**Board of Water Supply
City and County of Honolulu
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 68
Fiscal Years Ended June 30, 2020 and 2019**

NOTE A - CHANGES OF ASSUMPTIONS

There were no changes of assumptions or other inputs that significantly affected the measurement of the total pension liability since the measurement period ended June 30, 2016.

Amounts reported in the schedule of the proportionate share of the net pension liability as of the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017) were significantly impacted by the following changes of actuarial assumptions:

- The investment return assumption decreased from 7.65% to 7.00%
- Mortality assumptions were modified to assume longer life expectancies as well as to reflect continuous mortality improvement

Prior to the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017), there were no other factors, including the use of different assumptions that significantly affect trends reported in these schedules.

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
AND RELATED RATIOS
Last Ten Fiscal Years ***

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 2,598,017	\$ 2,480,098	\$ 2,404,087
Interest on the total OPEB liability	10,592,452	10,129,142	9,685,512
Difference between expected and actual experience	(28,736)	(2,312,485)	--
Changes of assumptions	1,247,028	2,183,447	--
Benefit payments	<u>(5,985,550)</u>	<u>(5,855,338)</u>	<u>(5,724,727)</u>
Net change in total OPEB liability	8,423,211	6,624,864	6,364,872
Total OPEB liability - Beginning	<u>153,014,513</u>	<u>146,389,649</u>	<u>140,024,777</u>
Total OPEB liability - Ending	\$ <u>161,437,724</u>	\$ <u>153,014,513</u>	\$ <u>146,389,649</u>
Plan fiduciary net position			
Contributions - employer	\$ 7,945,000	\$ 8,855,338	\$ 11,724,727
Net investment income	3,430,974	5,235,037	6,029,726
Benefit payments	(5,985,550)	(5,855,338)	(5,724,727)
Administrative expense	(25,068)	(15,933)	(13,794)
Other	<u>2,370,283</u>	<u>--</u>	<u>78,200</u>
Net change in plan fiduciary net position	7,735,639	8,219,104	12,094,132
Plan fiduciary net position - Beginning	<u>79,886,830</u>	<u>71,667,726</u>	<u>59,573,594</u>
Plan fiduciary net position - Ending	\$ <u>87,622,469</u>	\$ <u>79,886,830</u>	\$ <u>71,667,726</u>
Net OPEB liability	\$ <u>73,815,255</u>	\$ <u>73,127,683</u>	\$ <u>74,721,923</u>
Plan fiduciary net position as a percentage of the total OPEB liability	54.28%	52.21%	48.96%
Covered-employee payroll	\$ 39,801,114	\$ 38,023,983	\$ 36,968,407
Net OPEB Liability as a Percentage of Covered-employee payroll	185.46%	192.32%	202.12%

* This schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information.

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF CONTRIBUTIONS (OPEB)
Last Ten Fiscal Years**

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a %age of Covered- Employee Payroll
June 30, 2020	\$ 8,165,000	\$ 8,165,000	\$ --	\$ 39,537,387	20.7%
June 30, 2019	\$ 7,945,000	\$ 7,945,000	\$ --	\$ 39,801,114	20.0%
June 30, 2018	\$ 8,467,000	\$ 8,855,338	\$ (388,338)	\$ 38,023,983	23.3%
June 30, 2017	\$ 8,181,000	\$ 11,724,727	\$ (3,543,727)	\$ 36,968,407	31.7%
June 30, 2016	\$ 8,826,000	\$ 11,728,539	\$ (2,902,539)	\$ 35,467,175	33.1%
June 30, 2015	\$ 8,528,000	\$ 10,750,399	\$ (2,222,399)	\$ 34,329,374	31.3%
June 30, 2014	\$ 8,977,000	\$ 11,982,667	\$ (3,005,667)	\$ 32,993,059	36.3%
June 30, 2013	\$ 8,674,000	\$ 12,732,550	\$ (4,058,550)	\$ 30,236,942	42.1%
June 30, 2012	\$ 10,750,000	\$ 10,718,550	\$ 31,450	\$ 30,013,958	35.7%
June 30, 2011	\$ 10,387,000	\$ 12,339,213	\$ (1,952,213)	\$ 30,605,429	40.3%

See accompanying notes to required supplementary information.

**Board of Water Supply
City and County of Honolulu
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 75
Fiscal Years Ended June 30, 2020 and 2019**

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The actuarially determined annual required contributions (“ARC”) for the fiscal year ending June 30, 2020 was developed in the July 1, 2018 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2020:

Actuarial valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	17.9 as of June 30, 2020
Asset valuation method	Smoothed
Inflation rate	2.50%
Investment rate of return	7.00%
Payroll growth	3.50%
Salary increases	3.50% to 7.00% including inflation
Demographic assumptions	Based on the experience study covering the five year period ending June 30, 2015 as conducted for the Hawaii Employees’ Retirement System (ERS)
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 10%, declining to a rate of 4.86% after 13 years
HMO	Initial rate of 10%, declining to a rate of 4.86% after 13 years
Part B	Initial rates of 4% and 5%; declining to a rate of 4.7% after 12 years
Dental	5% for the first 3 years; then 4% for all future years
Vision	0% for the first 3 years; then 2.5% for all future years
Life Insurance	0%

**Board of Water Supply
City and County of Honolulu
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 75 (Continued)
Fiscal Years Ended June 30, 2020 and 2019**

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS (Continued)

The actuarially determined ARC for the fiscal year ending June 30, 2019 was developed in the July 1, 2017 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2019:

Actuarial valuation date	July 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	18.9 as of June 30, 2019
Asset valuation method	Market
Inflation rate	2.50%
Investment rate of return	7.00%
Payroll growth	3.50%
Salary increases	3.50% to 7.00% including inflation
Demographic assumptions	Based on the experience study covering the five year period ending June 30, 2015 as conducted for the Hawaii Employees' Retirement System (ERS)
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 6.6%, 6.6%, and 9%, declining to a rate of 4.86% after 14 years
HMO	Initial rate of 9%, declining to a rate of 4.86% after 14 years
Part B	Initial rate of 2% and 5%; declining to a rate of 4.7% after 14 years
Dental	3.5%
Vision	2.5%
Life Insurance	0%

**Board of Water Supply
City and County of Honolulu
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 75 (Continued)
Fiscal Years Ended June 30, 2020 and 2019**

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS (Continued)

The actuarial valuation as of July 1, 2009, which was used to develop the ARC for fiscal year 2011 and 2012, included a reduction to the discount rate used from the prior valuation. The discount rate changed from a blended discount rate of 7% - 8% to 7%. This resulted in an overall increase to the actuarially determined OPEB liability and the ARC.

There were no other factors that significantly affected trends in the amounts reported in the schedule of changes in the net OPEB liability and related ratios or the schedule of contributions (OPEB).

SUPPLEMENTARY INFORMATION

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF BONDS PAYABLE
June 30, 2020**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2020</u>
Water System Revenue Bonds					
Series 2012A					
Insured Serial Bonds	5.000%	3/29/2012	7/1/2020	(2)	\$ 2,320,000
Insured Serial Bonds	2.000%	3/29/2012	7/1/2020	(2)	2,000,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2021	(2)	6,865,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2022	(2)	8,535,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2023	7/1/2022	3,605,000
Insured Serial Bonds	5.000%	3/29/2012	7/1/2024	7/1/2022	3,790,000
					<u>27,115,000</u>
Water System Revenue Bonds					
Series 2014A (Non-AMT)					
Tax-Exempt Serial Bonds					
Insured Serial Bonds	5.000%	12/9/2014	7/1/2023	(2)	5,585,000
Insured Serial Bonds	3.000%	12/9/2014	7/1/2024	(2)	410,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2024	(2)	5,455,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2025	7/1/2024	6,165,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2026	7/1/2024	6,480,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2027	7/1/2024	6,810,000
Insured Serial Bonds	3.000%	12/9/2014	7/1/2028	(2)	930,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2028	7/1/2024	6,215,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2029	7/1/2024	7,505,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2030	7/1/2024	7,930,000
Insured Serial Bonds	3.250%	12/9/2014	7/1/2031	(2)	4,470,000
Insured Serial Bonds	5.000%	12/9/2014	7/1/2031	7/1/2024	3,825,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2032	7/1/2024	6,575,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2033	7/1/2024	6,840,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2034	7/1/2024	8,500,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2035	7/1/2024	8,755,000
Insured Serial Bonds	4.000%	12/9/2014	7/1/2036	7/1/2024	9,205,000
					<u>101,655,000</u>
Water System Revenue Bonds					
Series 2014B (AMT)					
Taxable Serial Bonds					
Insured Serial Bonds	2.389%	12/9/2014	7/1/2020	(2)	4,790,000
Insured Serial Bonds	2.619%	12/9/2014	7/1/2021	(2)	2,585,000
Insured Serial Bonds	2.755%	12/9/2014	7/1/2022	(2)	1,540,000
Insured Serial Bonds	2.915%	12/9/2014	7/1/2023	(2)	1,585,000
Insured Serial Bonds	3.135%	12/9/2014	7/1/2024	(2)	1,625,000
Insured Serial Bonds	3.285%	12/9/2014	7/1/2025	(2)	1,670,000
Insured Serial Bonds	3.385%	12/9/2014	7/1/2026	(2)	1,730,000
Insured Serial Bonds	3.485%	12/9/2014	7/1/2027	(2)	1,785,000
Insured Serial Bonds	3.585%	12/9/2014	7/1/2028	(2)	1,845,000
Insured Serial Bonds	3.685%	12/9/2014	7/1/2029	(2)	1,910,000
Insured Serial Bonds	3.760%	12/9/2014	7/1/2030	(2)	1,975,000
Insured Serial Bonds	3.860%	12/9/2014	7/1/2031	(2)	2,045,000
					<u>\$ 25,085,000</u>

(1) Call dates indicated are optional.

(2) Noncallable.

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2020**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2020</u>
Water System Revenue Bonds					
Series 2020A (Tax Exempt)					
Insured Serial Bonds	5.000%	3/25/2020	7/1/2021	(2)	\$ 1,035,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2022	(2)	1,085,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2023	(2)	1,145,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2024	(2)	1,200,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2025	(2)	1,265,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2026	(2)	1,330,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2027	(2)	1,395,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2028	(2)	1,470,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2029	(2)	1,545,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2030	(2)	1,620,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2031	7/1/2030	1,705,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2032	7/1/2030	1,790,000
Insured Serial Bonds	5.000%	3/25/2020	7/1/2033	7/1/2030	1,885,000
Insured Serial Bonds	2.500%	3/25/2020	7/1/2034	(2)	1,955,000
Insured Serial Bonds	4.000%	3/25/2020	7/1/2035	7/1/2030	2,020,000
Insured Serial Bonds	4.000%	3/25/2020	7/1/2036	7/1/2030	2,105,000
Insured Serial Bonds	4.000%	3/25/2020	7/1/2037	7/1/2030	2,190,000
Insured Serial Bonds	2.625%	3/25/2020	7/1/2038	(2)	2,265,000
Insured Serial Bonds	4.000%	3/25/2020	7/1/2039	7/1/2030	2,340,000
Insured Serial Bonds	2.750%	3/25/2020	7/1/2040	(2)	2,420,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2041	7/1/2030	2,490,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2042	7/1/2030	2,565,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2043	7/1/2030	2,645,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2044	7/1/2030	2,725,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2045	7/1/2030	2,805,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2046	7/1/2030	2,895,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2047	7/1/2030	2,980,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2048	7/1/2030	3,070,000
Insured Serial Bonds	3.000%	3/25/2020	7/1/2049	7/1/2030	<u>3,165,000</u>
					\$ <u>59,105,000</u>

(1) Call dates indicated are optional.

(2) Noncallable.

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2020**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2020</u>
Water System Revenue Bonds					
Series 2020B					
Taxable Serial Bonds					
	1.408%	3/25/2020	7/1/2020	(2)	\$ 800,000
	1.408%	3/25/2020	7/1/2021	(2)	580,000
	1.508%	3/25/2020	7/1/2022	(2)	590,000
	1.661%	3/25/2020	7/1/2023	(2)	600,000
	1.720%	3/25/2020	7/1/2024	(2)	610,000
	1.770%	3/25/2020	7/1/2025	(2)	4,535,000
	1.933%	3/25/2020	7/1/2026	(2)	4,620,000
	1.983%	3/25/2020	7/1/2027	(2)	4,715,000
	2.027%	3/25/2020	7/1/2028	(2)	4,815,000
	2.077%	3/25/2020	7/1/2029	(2)	4,910,000
	2.127%	3/25/2020	7/1/2030	(2)	5,015,000
	2.227%	3/25/2020	7/1/2031	(2)	5,125,000
	2.327%	3/25/2020	7/1/2032	(2)	5,245,000
	2.377%	3/25/2020	7/1/2033	(2)	5,370,000
					<u>47,530,000</u>
					<u>\$ 260,490,000</u>

(1) Call dates indicated are optional.

(2) Noncallable.

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF NET REVENUE REQUIREMENT
Fiscal Years Ended June 30, 2020 and 2019**

	2020	2019
REVENUES		
Water sales	\$ 228,467,575	\$ 226,347,969
Interest	7,994,046	7,549,495
Other	<u>3,565,485</u>	<u>2,697,545</u>
Total revenues	<u>240,027,106</u>	<u>236,595,009</u>
DEDUCTIONS		
Operating expenses	212,718,613	203,999,113
Less: depreciation expense	(45,796,106)	(47,266,015)
Less: allocated depreciation charges	<u>(1,709,271)</u>	<u>(1,515,219)</u>
Total deductions	<u>165,213,236</u>	<u>155,217,879</u>
Net revenues	\$ <u>74,813,870</u>	\$ <u>81,377,130</u>
NET REVENUE REQUIREMENT		
Greater of:		
1) Aggregate debt service	\$ 18,464,913	\$ 17,875,798
Required deposits	<u> --</u>	<u> --</u>
	\$ <u>18,464,913</u>	\$ <u>17,875,798</u>
2) Aggregate debt service	\$ 18,464,913	\$ 17,875,798
Minimum required debt service ratio	x <u>1.20</u>	x <u>1.20</u>
Net revenue requirement	\$ <u>22,157,896</u>	\$ <u>21,450,958</u>
Net revenue to aggregate debt service ratio	<u>4.05</u>	<u>4.55</u>