

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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2021 and 2020

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

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**Board of Water Supply
City and County of Honolulu
INTRODUCTION
Fiscal Year Ended June 30, 2021**

The Board of Water Supply of the City and County of Honolulu (BWS) is pleased to present its Annual Financial Report for fiscal year 2021. 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 2021, 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.

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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 22,529 chemical tests, 33,826 microbiological tests, and collected 21,757 samples from BWS sources, distribution systems and treatment facilities to ensure all water served is safe to drink; tests performed during Fiscal Year 2021 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 2021, 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 \$136,548 in rebates and achieved an estimated freshwater savings of more than 33 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.

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- The BWS sponsored its 43rd annual Water Conservation Week Poster Contest and the 13th annual Water Conservation Week Poetry Contest. Due to the impacts of COVID-19, we saw a significant drop in entries receiving 152 posters and 131 poems from 11 Oahu schools, focused on the theme "Conserve Today for Tomorrow". All winning entries will be featured in the 2022 Water Conservation Calendar scheduled for distribution in December 2021.

Operational Sustainability (Dependable)

- May 2021 marked the sixth 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 343 main breaks, or about 16 breaks per 100 miles of pipeline, and conducted leak detection surveys for 166 miles of pipeline, which resulted in the Leak Detection Team finding and repairing 10 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 11,205 One Call underground pipeline location requests and providing in-field support for 593 water line leaks and breaks. In fiscal year 2021, 18,065 meter investigations were conducted to ensure accurate and timely billing and assisted 4,837 customers with concerns about bills reflecting high water consumption. BWS staff assisted 126,460 customers: 105,202 (83.2%) by phone; 20,747 (16.4%) via web requests; and 511 (0.4%) in-person.

Financial Sustainability (Affordable)

- The BWS Series 2020 and Series 2021 water revenue bonds are rated AAA by S&P Global and AA+ by Fitch Ratings. This allows the board to access capital financing at reasonable rates.
- As of June 30, 2021, the BWS awarded \$184 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;

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- Awarded design and construction contracts for renovations and improvements of the following BWS facilities: Aiea Wells, Halawa 418 Reservoir, Halawa Xeriscape Garden, Hawaii Loa Booster Nos 1-3, Hoaeae Wells, Honouliuli Well II, Kaahumanu Wells, Kaimuki Pump Station, Kalihi Corporation Yard, Keanu Tunnel, Kunia Wells Iii-IV, Lualualei 242 Reservoir, Makiki 180 Reservoir, Manoa Wells II, Mariners Ridge Booster No. 2, Newtown Wells, Nuuanu 640 Reservoir, Pacific Heights 578 reservoir and Booster, Pupukea 170 Reservoir, St. Louis Heights Reservoir and Booster, Waialae Iki 640 Reservoir, Waiiau Wells, Waimalu Well III, Waimanalo Wells III, Waipahu Well IV, and Woodlawn 705 Reservoir;
- BWS processes payments through various methods: automatic bill payment (33.6%); lockbox (30.8%); online customer portal (18.4%); BWS Cashiers (13%); Call Center (3.2%); automated pay-by-phone (0.9%) and Satellite City Hall locations (0.1%).

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, 2021 and 2020, 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, 2021 and 2020, 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 the 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 61 to 68 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 12, 2021 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 12, 2021

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2021 and 2020**

This section presents management's discussion and analysis of the BWS's financial condition and activities for the fiscal year ended June 30, 2021. This information should be read in conjunction with the BWS's basic financial statements.

Financial Highlights

The BWS implemented the third of five rate increases on July 2020 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 2021, water rates increased by approximately 2%, which equates to \$1.60 of the monthly water charges for an average single-family residential customer effective July 1, 2020.

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 \$17.7 million in fiscal year 2021 compared to the \$56.9 million increase in fiscal year 2020.
- Total assets were \$1.9 billion as of June 30, 2021 and \$1.8 billion as of June 30, 2020, which exceeded liabilities by \$1.2 billion as of June 30, 2021 and 2020.
- The BWS's unrestricted current assets at June 30, 2021 were 4.6 times its related current liabilities compared to 5.2 times at June 30, 2020.
- The BWS's debt to equity ratio was 35.4% and 30.5% at June 30, 2021 and 2020, 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 date of acquisition), resulting from operating, investing, capital and related financing activities, and non-capital financing activities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2021 and 2020**

Results of Operations

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Amounts in thousands)

	2021	2020	2019	2021 - 2020		2020 - 2019	
				Increase (decrease)	% Change	Increase (decrease)	% Change
Operating revenues	\$ 238,003	\$ 231,107	\$ 228,662	\$ 6,896	3.0%	\$ 2,445	1.1%
Operating expenses							
Administrative and general	81,822	71,191	72,031	10,631	14.9%	(840)	-1.2%
Depreciation	47,142	45,796	47,266	1,346	2.9%	(1,470)	-3.1%
Power and pumping	32,574	35,044	35,139	(2,470)	-7.0%	(95)	-0.3%
Other operating expenses	62,562	60,688	49,563	1,874	3.1%	11,125	22.4%
Total operating expenses	224,100	212,719	203,999	11,381	5.4%	8,720	4.3%
Operating income	13,903	18,388	24,663	(4,485)	-24.4%	(6,275)	-25.4%
Nonoperating revenues (expenses)							
Interest income	7,792	7,994	7,549	(202)	-2.5%	445	5.9%
Interest expense	(9,761)	(9,261)	(9,661)	(500)	5.4%	400	-4.1%
Others, net	(9,339)	11,895	10,710	(21,234)	-178.5%	1,185	11.1%
Total nonoperating revenues (expenses)	(11,308)	10,628	8,598	(21,936)	-206.4%	2,030	23.6%
Contributions in aid of construction	15,150	27,887	12,976	(12,737)	-45.7%	14,911	114.9%
Change in net position	\$ 17,745	\$ 56,903	\$ 46,237	\$ (39,158)	-68.8%	\$ 10,666	23.1%

Operating revenues for the fiscal year ended June 30, 2021 totaled \$238 million, an increase of \$6.9 million or 3% from the fiscal year ended June 30, 2020. This was due to the increase in water consumption for the single-family residential class by \$8.1 million, and multi-family residential class by \$2.2 million in fiscal year 2021. Such increases were offset by a decrease in non-residential rate class of \$3.3 million.

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.

Total operating expenses increased by \$11.4 million in fiscal year 2021. Factors contributing to this change are explained below:

- Administrative and general increased by \$10.6 million in fiscal year 2021. The increase is due to an increase in professional services, other services, and claims.
- Power and pumping decreased by \$2.4 million in fiscal year 2021, at the total of \$32.6 million compared to \$35.0 million in fiscal year 2020.
- Other operating expenses increased by \$1.9 million during fiscal year 2021 mainly due to the increase in maintenance costs and customers' accounting and collection.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2021 and 2020**

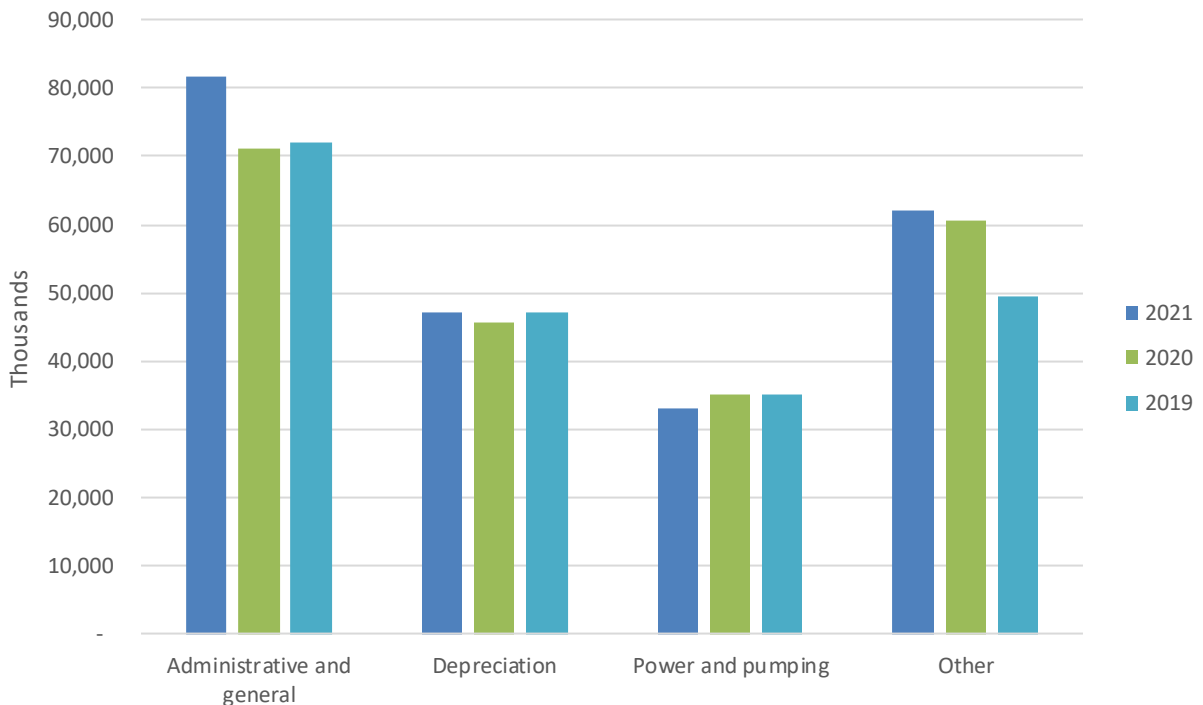
Total operating expenses increased by \$8.7 million in fiscal year 2020. Factors contributing to this change are explained below:

- 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.

For the fiscal year ended June 30, 2021, net nonoperating revenues (expenses) decreased by \$21.9 million. This was the result of a decrease in net realized and unrealized gain on investments by \$21.3 million.

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.

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

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Fiscal Years Ended June 30, 2021 and 2020**

construction of \$15.1 million in fiscal year 2021 compared to \$27.9 million in fiscal year 2020. The decrease was primarily due to decreases in contributions by private developers of \$6.6 million, decreases in contributions by government of \$3.1 million, and SRF debt forgiveness of \$2.9 million that was recognized in fiscal year 2020. During the fiscal year ended June 30, 2021, the major developments were Ho'opili Development Phase 6, Backbone Roadway Improvements, Ho'opili Development Phase 2 Offsite Water Improvements, and Ho'opili Development Phase 6, Parcel 11.

The BWS realized contributions in aid of 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.

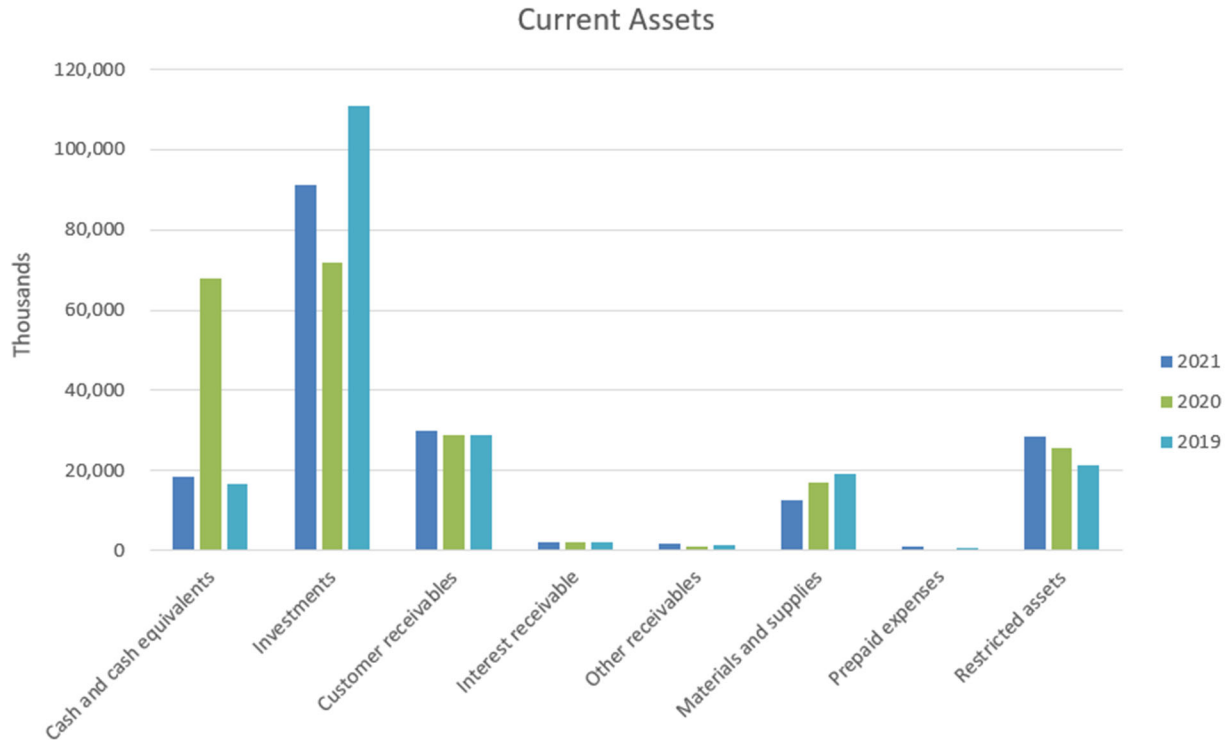
Financial Condition

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

	2021	2020	2019	2021 - 2020		2020 - 2019	
				Increase (decrease)	% Change	Increase (decrease)	% Change
Current assets	\$ 185,152	\$ 214,591	\$ 200,951	\$ (29,439)	-13.7%	\$ 13,640	6.8%
Noncurrent assets							
Capital assets, net	1,302,822	1,247,700	1,188,906	55,122	4.4%	58,794	4.9%
Investments	315,325	306,912	283,878	8,413	2.7%	23,034	8.1%
Restricted and other assets	131,485	75,769	24,351	55,716	73.5%	51,418	211.2%
Total assets	<u>1,934,784</u>	<u>1,844,972</u>	<u>1,698,086</u>	<u>89,812</u>	4.9%	<u>146,886</u>	8.7%
Deferred outflows of resources	<u>59,546</u>	<u>48,195</u>	<u>53,064</u>	<u>11,351</u>	23.6%	<u>(4,869)</u>	-9.2%
Total assets and deferred outflows of resources	\$ <u>1,994,330</u>	\$ <u>1,893,167</u>	\$ <u>1,751,150</u>	\$ <u>101,163</u>	5.3%	\$ <u>142,017</u>	8.1%
Current liabilities	\$ 62,615	\$ 62,511	\$ 54,045	\$ 104	0.2%	\$ 8,466	15.7%
Noncurrent liabilities							
Bonds payable, noncurrent	316,115	267,636	213,780	48,479	18.1%	53,856	25.2%
Notes payable, noncurrent	114,474	97,966	78,163	16,508	16.9%	19,803	25.3%
Net pension liability	132,989	114,808	120,348	18,181	15.8%	(5,540)	-4.6%
Net OPEB liability	67,508	73,815	73,128	(6,307)	-8.5%	687	0.9%
Other liabilities	<u>15,938</u>	<u>14,265</u>	<u>11,766</u>	<u>1,673</u>	11.7%	<u>2,499</u>	21.2%
Total liabilities	<u>709,639</u>	<u>631,001</u>	<u>551,230</u>	<u>78,638</u>	12.5%	<u>79,771</u>	14.5%
Deferred inflows of resources	<u>16,530</u>	<u>11,750</u>	<u>6,408</u>	<u>4,780</u>	40.7%	<u>5,342</u>	83.4%
Net position							
Net investment in capital assets	977,271	929,869	885,600	47,402	5.1%	44,269	5.0%
Restricted for capital activity and debt service	29,405	29,005	38,677	400	1.4%	(9,672)	-25.0%
Unrestricted	<u>261,485</u>	<u>291,542</u>	<u>269,235</u>	<u>(30,057)</u>	-10.3%	<u>22,307</u>	8.3%
Total net position	<u>1,268,161</u>	<u>1,250,416</u>	<u>1,193,512</u>	<u>17,745</u>	1.4%	<u>56,904</u>	4.8%
Total liabilities, deferred inflows of resources and net position	\$ <u>1,994,330</u>	\$ <u>1,893,167</u>	\$ <u>1,751,150</u>	\$ <u>101,163</u>	5.3%	\$ <u>142,017</u>	8.1%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2021 and 2020**

The BWS's current assets were 3.0, 3.4, and 3.7 times its related current liabilities as of June 30, 2021, 2020, and 2019, respectively. The ratio decrease at June 30, 2021 was due to a decrease in cash and cash equivalents by \$49 million, offset by an increase in investments of \$21 million. 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.



Non-current restricted and other assets increased by \$55.7 million in fiscal year 2021. The increase is primarily due to the receipt of Series 2021A net bond proceeds of \$61 million during fiscal year 2021. 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.

Bonds payable increased by \$49.7 million as of June 30, 2021. The increase is also attributed to the issuance of Series 2021A Bonds that resulted in the receipt of net bond proceeds of \$61 million during fiscal year 2021, offset by scheduled debt service payments in fiscal year 2021. Bonds payable increased by \$54.9 million as of June 30, 2020. The increase represents the issuance of Series 2020A Bonds during fiscal year 2020.

Notes payable increased by \$17.7 million as of June 30, 2021. The increase is due to the receipt of loan proceeds for new projects utilizing financing from the state revolving fund loan program totaling \$23.5 million. Notes payable increased by \$21.4 million as of June 30, 2020. The increase is primarily due to the receipt of loan proceeds for projects utilizing financing from the state revolving fund loan program totaling \$28.6 million.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The net pension liability increased by \$18.1 million as of June 30, 2021, which was mainly due to an increase in the BWS's proportionate share of the collective net pension liability and unfavorable net difference between projected and actual investment earnings. 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 OPEB liability decreased by \$6.3 million as of June 30, 2021, which was mainly due to favorable differences between expected and actual experience. 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 changes in assumptions.

Capital Assets and Long-Term Debt

During fiscal years 2021 and 2020, the BWS capitalized \$58.8 million and \$56.8 million, respectively, to its utility plant in service. Major assets added in fiscal year 2021 were Energy Savings Performance Contract, \$8.5 million; Moiliili Water System Improvements, Part IV, \$6.2 million; Rehabilitation of Pipeline and Tunnels: Makapuu Tunnel, \$5.1 million; Lunalilo Home Road Water System Improvements, \$4.8 million; and Mililani Wells III GAC Valve Replacement and Backwash System Isolation, \$3.9 million.

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.

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 35.4%, 30.5%, and 25.5% as of June 30, 2021, 2020, and 2019, 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, 2021 and 2020.

**Board of Water Supply
City and County of Honolulu
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Years Ended June 30, 2021 and 2020**

Novel Coronavirus (COVID-19)

The unprecedented outbreak of COVID-19 caused economic and operational uncertainties for government and the private sectors in 2020. In 2021, the BWS did not see a significant overall impact to revenues. Year over year residential revenue increased from July 2020 through January 2021 and remained stable from February through July 2021. Annual residential revenues increased by \$10,378,000 or 7.3%

Non-residential revenues decreased from July 2020 through April 2021 and began increasing in May and June 2021. Annual non-residential revenues decrease by \$3,367,000 or 4.4%.

Agricultural revenues did not show a pattern related to COVID-19. Annual agricultural revenues increased by \$97,000 or 5.5%.

Total revenue increased by \$6,896,000 or 3.0%. The delinquency rate is 11.22% and 10.89% for fiscal year 2020 and 2021, respectively.

To assist with the costs incurred by COVID-19, the BWS received CARES funding of approximately \$902,000 and \$13,000 in fiscal year 2021 and 2020, respectively.

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, 2021 and 2020**

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,449,630	\$ 67,877,735
Investments	91,025,003	71,832,987
Interest receivable	2,056,296	1,866,206
Customer receivables		
Billed, less allowance for uncollectible accounts of \$5,302,918 in 2021 and \$3,794,392 in 2020	17,787,697	16,925,540
Unbilled	11,968,019	12,082,404
Other receivables, less allowances for uncollectible accounts of \$510,868 in 2021 and 2020	1,491,403	1,014,802
Materials and supplies	12,267,404	17,024,618
Prepaid expenses	1,571,502	378,034
Restricted assets		
Cash and cash equivalents	26,184,526	25,589,110
Investments	2,350,913	--
Total current assets	185,152,393	214,591,436
Noncurrent assets		
Capital assets		
Infrastructure	1,617,263,462	1,586,973,234
Building and improvements	194,281,691	189,954,834
Equipment and machinery	364,500,386	347,463,706
	2,176,045,539	2,124,391,774
Less accumulated depreciation	(1,161,124,227)	(1,118,403,479)
	1,014,921,312	1,005,988,295
Land	32,370,754	32,373,064
Construction work in progress	255,530,013	209,338,479
Net capital assets	1,302,822,079	1,247,699,838
Investments	315,325,221	306,911,972
Restricted assets		
Cash and cash equivalents	--	64,893,617
Investments	131,483,636	10,874,633
Other assets	565	612
Total noncurrent assets	1,749,631,501	1,630,380,672
Total assets	1,934,783,894	1,844,972,108
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt and other	15,976,326	14,780,122
Deferred outflows of resources related to pensions	28,791,640	21,818,025
Deferred outflows of resources related to OPEB	14,778,103	11,596,553
Total deferred outflows of resources	59,546,069	48,194,700
Total assets and deferred outflows of resources	\$ 1,994,329,963	\$ 1,893,166,808

See accompanying notes to financial statements.

**Board of Water Supply
City and County of Honolulu
STATEMENTS OF NET POSITION (Continued)
June 30, 2021 and 2020**

	2021	2020
LIABILITIES		
Current liabilities		
Payable from current assets		
Accounts payable	\$ 13,329,673	\$ 16,042,971
Contracts payable, including retainages	13,007,891	13,079,867
Accrued vacation, current portion	2,664,192	2,850,143
Accrued workers' compensation, current portion	1,416,262	1,271,067
Other	3,661,588	3,677,477
Total payable from current assets	34,079,606	36,921,525
Payable from restricted assets		
Contracts payable, including retainages	5,353,804	5,138,173
Accrued interest payable	4,929,337	4,423,920
Bonds payable, current portion	11,125,000	9,910,000
Notes payable, current portion	6,937,565	5,754,780
Refundable advances	189,733	362,237
Total payable from restricted assets	28,535,439	25,589,110
Total current liabilities	62,615,045	62,510,635
Noncurrent liabilities		
Bonds payable, noncurrent portion	316,115,113	267,636,345
Notes payable, noncurrent portion	114,474,028	97,965,810
Net pension liability	132,989,070	114,807,821
Net OPEB liability	67,507,849	73,815,255
Accrued vacation, noncurrent portion	5,209,444	4,486,874
Accrued workers' compensation	3,659,542	3,530,561
Customer advances	652,615	2,348,616
Other	6,416,480	3,898,713
Total noncurrent liabilities	647,024,141	568,489,995
Total liabilities	709,639,186	631,000,630
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	7,036,558	10,283,163
Deferred inflows of resources related to OPEB	9,492,810	1,467,196
Total deferred inflows of resources	16,529,368	11,750,359
NET POSITION		
Net investment in capital assets	977,271,400	929,869,437
Restricted for capital activity and debt service	29,404,481	29,004,758
Unrestricted	261,485,528	291,541,624
Total net position	1,268,161,409	1,250,415,819
Total liabilities, deferred inflows of resources and net position	\$ 1,994,329,963	\$ 1,893,166,808

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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water sales	\$ 235,431,118	\$ 228,467,575
Other, principally contract and service fees	<u>2,572,365</u>	<u>2,639,953</u>
Total operating revenues	<u>238,003,483</u>	<u>231,107,528</u>
OPERATING EXPENSES		
Administrative and general	81,821,963	71,190,600
Depreciation	47,141,796	45,796,106
Transmission and distribution	32,937,298	33,022,657
Power and pumping	32,573,830	35,044,263
Maintenance	16,624,691	14,839,903
Water reclamation	4,851,947	4,986,298
Customers' accounting and collection	4,694,915	4,154,640
Central administrative services expense fees	3,300,000	3,300,000
Source of supply	<u>153,090</u>	<u>384,146</u>
Total operating expenses	<u>224,099,530</u>	<u>212,718,613</u>
Operating income	<u>13,903,953</u>	<u>18,388,915</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	7,792,266	7,994,046
Interest expense, net of amortization of bond premiums of \$2,634,555 in 2021 and \$1,845,668 in 2020	(9,760,864)	(9,260,845)
Bond issuance costs	(556,864)	(682,715)
Loss from disposal of capital assets	(488,196)	(675,481)
Net increase (decrease) in the fair value of investments	(9,005,333)	12,327,374
Federal grant revenue	348,964	658,355
Other	<u>361,850</u>	<u>267,177</u>
Total nonoperating revenues (expenses)	<u>(11,308,177)</u>	<u>10,627,911</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>15,149,814</u>	<u>27,886,677</u>
Change in net position	17,745,590	56,903,503
NET POSITION		
Beginning of year	<u>1,250,415,819</u>	<u>1,193,512,316</u>
End of year	\$ <u>1,268,161,409</u>	\$ <u>1,250,415,819</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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 235,167,222	\$ 232,215,173
Payments to suppliers for goods and services	(94,772,853)	(92,987,403)
Payments to employees for services	<u>(66,794,242)</u>	<u>(60,448,018)</u>
Net cash provided by operating activities	<u>73,600,127</u>	<u>78,779,752</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(100,507,386)	(89,728,278)
Customer payments for capital projects	8,605,695	10,329,332
Federal grants received	176,460	1,020,592
Net proceeds from bond issuance	61,004,531	65,293,753
Principal paid on bonds	(9,910,000)	(8,820,000)
Interest paid on bonds	(8,964,086)	(8,902,128)
Advanced refunding of previously issued debt	(2,175,044)	(1,083,073)
Proceeds from notes payable	23,572,671	28,543,912
Interest paid on notes payable	(1,279,268)	(957,567)
Principal paid on notes payable	<u>(5,881,668)</u>	<u>(4,168,725)</u>
Net cash used in capital and related financing activities	<u>(35,358,095)</u>	<u>(8,472,182)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(301,372,060)	(135,927,883)
Proceeds from maturity of investments	141,801,546	174,695,679
Interest on investments	<u>7,602,176</u>	<u>8,110,203</u>
Net cash provided by (used in) investing activities	<u>(151,968,338)</u>	<u>46,877,999</u>
Net increase (decrease) in cash and cash equivalents	(113,726,306)	117,185,569
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>158,360,462</u>	<u>41,174,893</u>
End of year	\$ <u><u>44,634,156</u></u>	\$ <u><u>158,360,462</u></u>
Reconciliation of cash and cash equivalents to the statement of net position		
Unrestricted	\$ 18,449,630	\$ 67,877,735
Restricted	<u>26,184,526</u>	<u>90,482,727</u>
	\$ <u><u>44,634,156</u></u>	\$ <u><u>158,360,462</u></u>

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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 13,903,953	\$ 18,388,915
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	49,215,024	47,505,377
Provision for doubtful accounts	1,772,159	1,018,275
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Customer receivables	(2,519,931)	(1,017,396)
Other receivables	(114,751)	649,832
Materials and supplies	4,757,214	2,074,415
Prepaid expenses and other	(1,193,468)	78,412
Deferred outflows of resources related to pensions	(6,973,615)	5,955,093
Deferred outflows of resources related to OPEB	(3,181,550)	(1,878,182)
Accounts and contracts payable	(2,039,600)	2,176,977
Accrued vacation	536,619	562,881
Accrued workers' compensation	274,176	952,786
Other liabilities	2,511,045	1,822,872
Net pension liability	18,181,249	(5,540,520)
Net OPEB liability	(6,307,406)	687,572
Deferred inflows of resources related to pensions	(3,246,605)	6,832,897
Deferred inflows of resources related to OPEB	8,025,614	(1,490,454)
Net cash provided by operating activities	<u>\$ 73,600,127</u>	<u>\$ 78,779,752</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in fair value of investments	\$ (9,520,714)	\$ 10,709,380
Contributions of capital assets from government agencies, developers and customers that are recorded as contributions in aid of construction	\$ 4,848,118	\$ 14,549,677
Capital asset additions included in contracts and accounts payable at year end	\$ 18,361,657	\$ 18,891,700
Bond proceeds deposited directly with escrow agent for refunding of previously issued debt	\$ 43,266,203	\$ 47,231,940
Bond issuance costs deducted from bond proceeds	\$ 556,864	\$ 682,715
Amortization of other costs	\$ 47	\$ 47
Amortization of bond premium, net	\$ 2,634,555	\$ 1,845,668
Amortization of deferred loss on refunding	\$ 1,646,601	\$ 1,529,163
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, 2021 and 2020**

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, 2021 and 2020**

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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 interest 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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2021 and 2020, accumulated sick leave aggregated approximately \$19,743,000 and \$19,401,000, 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.

- (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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (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.
- (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 the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, the 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.

**Board of Water Supply
City and County of Honolulu
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (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.

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) **New Accounting Pronouncements** - The Governmental Accounting Standards Board (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.

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

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. treasury obligations and U.S. government agencies securities.

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.

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NOTE C - CASH AND INVESTMENTS (Continued)

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, 2021 and 2020 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, 2021 and 2020, 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, 2021 and 2020 consisted of the following:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
U. S. Treasury obligations	\$ 440,665,919	\$ 445,073,389	\$ 307,193,842	\$ 319,258,382
U. S. government agencies	<u>94,341,209</u>	<u>95,111,384</u>	<u>67,727,392</u>	<u>70,361,210</u>
	<u>\$ 535,007,128</u>	<u>\$ 540,184,773</u>	<u>\$ 374,921,234</u>	<u>\$ 389,619,592</u>

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NOTE C - CASH AND INVESTMENTS (Continued)

As of June 30, 2021 and 2020, the credit exposure as a percentage of total investments were as follows:

	2021		2020	
	Percent of Total	Fair Value	Percent of Total	Fair Value
U. S. Treasury obligations	82%	\$ 445,073,389	82%	\$ 319,258,382
U. S. government agencies				
Federal National Mortgage Association	7%	38,523,607	7%	26,020,686
Federal Home Loan Mortgage Corporation	2%	9,089,710	1%	3,683,028
Federal Home Loan Bank	7%	38,523,738	8%	33,346,320
Federal Farm Credit Bank	2%	8,974,329	2%	7,311,176
	<u>100%</u>	<u>\$ 540,184,773</u>	<u>100%</u>	<u>\$ 389,619,592</u>

The fair value of investments by contractual maturity at June 30, 2021 and 2020 are shown below:

	Investment Maturities (In Years) at June 30, 2021		
	Fair Value	Less Than 1	1 - 5
U. S. Treasury obligations	\$ 445,073,389	\$ 100,906,900	\$ 344,166,489
U. S. government agencies	<u>95,111,384</u>	<u>22,026,779</u>	<u>73,084,605</u>
	<u>\$ 540,184,773</u>	<u>\$ 122,933,679</u>	<u>\$ 417,251,094</u>
	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	<u>70,361,210</u>	<u>17,205,051</u>	<u>53,156,159</u>
	<u>\$ 389,619,592</u>	<u>\$ 73,842,742</u>	<u>\$ 315,776,850</u>

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NOTE D - RESTRICTED ASSETS

At June 30, 2021 and 2020, the BWS's restricted assets were comprised of cash, cash equivalents and investments and were held for the following purposes:

	2021	2020
Construction, renewals and replacements	\$ 128,344,144	\$ 71,036,203
Debt service	31,674,931	30,321,157
	\$ 160,019,075	\$ 101,357,360

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 can 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.

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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, 2021 and 2020:

	Assets at Fair Value at June 30, 2021			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 445,073,389	\$ 445,073,389	\$ --	\$ --
U. S. government agencies	<u>95,111,384</u>	<u>--</u>	<u>95,111,384</u>	<u>--</u>
	<u>\$ 540,184,773</u>	<u>\$ 445,073,389</u>	<u>\$ 95,111,384</u>	<u>\$ --</u>
	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>

NOTE F - CAPITAL ASSETS

Capital assets activity during the fiscal years ended June 30, 2021 and 2020 were as follows:

	Balance July 1, 2020	Additions	Transfers	Retirements	Balance June 30, 2021
Depreciable assets					
Infrastructure	\$ 1,586,973,234	\$ 4,949,460	\$ 27,058,739	\$ (1,717,971)	\$ 1,617,263,462
Building and improvements	189,954,834	258,770	4,092,417	(24,330)	194,281,691
Equipment and machinery	<u>347,463,706</u>	<u>5,305,510</u>	<u>17,175,010</u>	<u>(5,443,840)</u>	<u>364,500,386</u>
Total depreciable assets	2,124,391,774	10,513,740	48,326,166	(7,186,141)	2,176,045,539
Less accumulated depreciation	<u>(1,118,403,479)</u>	<u>(49,215,024)</u>	<u>--</u>	<u>6,494,276</u>	<u>(1,161,124,227)</u>
Total depreciable assets - net	1,005,988,295	(38,701,284)	48,326,166	(691,865)	1,014,921,312
Land	32,373,064	--	(2,310)	--	32,370,754
Construction work in progress	<u>209,338,479</u>	<u>104,245,593</u>	<u>(58,054,059)</u>	<u>--</u>	<u>255,530,013</u>
Net capital assets	<u>\$ 1,247,699,838</u>	<u>\$ 65,544,309</u>	<u>\$ (9,730,203)</u>	<u>\$ (691,865)</u>	<u>\$ 1,302,822,079</u>

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NOTE F - CAPITAL ASSETS (Continued)

	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	328,433,517	4,703,282	16,243,633	(1,916,726)	347,463,706
Total depreciable assets	<u>2,071,203,759</u>	<u>19,449,077</u>	<u>37,408,163</u>	<u>(3,669,225)</u>	<u>2,124,391,774</u>
Less accumulated depreciation	(1,073,891,290)	(47,505,377)	--	2,993,188	(1,118,403,479)
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	159,220,947	99,930,235	(49,812,703)	--	209,338,479
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>

Depreciation charges allocated to various functions for the fiscal years ended June 30, 2021 and 2020 totaled \$2,073,228 and \$1,709,271, respectively.

NOTE G - BONDS PAYABLE

At June 30, 2021 and 2020, bonds payable consisted of the following:

	<u>2021</u>	<u>2020</u>
Water System Revenue Bonds, Series 2012A, annual principal due ranging from \$6,865,000 to \$8,535,000 through July 1, 2022, with an interest rate at 5.0% per annum.	\$ 15,400,000	\$ 27,115,000
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 3.0% to 5.0%.	69,370,000	101,655,000
Water System Revenue Bonds, Series 2014B, annual principal due ranging from \$1,540,000 to \$2,585,000 through July 1, 2031, with interest ranging from 2.62% to 3.86%.	20,295,000	25,085,000
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 5.0%.	<u>59,105,000</u>	<u>59,105,000</u>
Balance brought forward	<u>\$ 164,170,000</u>	<u>\$ 212,960,000</u>

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NOTE G - BONDS PAYABLE (Continued)

	<u>2021</u>	<u>2020</u>
Balance carried forward	\$ 164,170,000	\$ 212,960,000
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%.	46,730,000	47,530,000
Water System Revenue Bonds, Series 2021A, annual principal due ranging from \$855,000 to \$2,955,000 through July 1, 2050, with interest ranging from 3.0% to 5.0%.	50,020,000	--
Water System Revenue Bonds, Series 2021B, annual principal due ranging from \$60,000 to \$8,155,000 through July 1, 2031, with interest ranging from 0.16% to 2.07%.	<u>43,515,000</u>	<u>--</u>
	304,435,000	260,490,000
Add: unamortized premium	<u>22,805,113</u>	<u>17,056,345</u>
	327,240,113	277,546,345
Less: current portion	<u>11,125,000</u>	<u>9,910,000</u>
Noncurrent portion	<u>\$ 316,115,113</u>	<u>\$ 267,636,345</u>

The BWS has pledged future 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, 2021 and 2020, the total principal and interest remaining to be paid on the bonds totaled \$424,770,000 and \$359,722,000, respectively. Principal and interest paid for the current year and revenues, net of specified operating and maintenance expenses, were approximately \$18,874,000 and \$71,622,000, respectively.

The BWS's 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.

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NOTE G - BONDS PAYABLE (Continued)

In March 2021, the BWS issued \$43,515,000 in Water System Revenue Bonds, Series 2021B, to advance refund \$7,395,000 of outstanding Series 2012A bonds with an interest rate of 5.0% per annum and \$32,285,000 of outstanding Series 2014A bonds with an interest rate at 5.0% per annum. The net proceeds of \$43,266,203 (after payment of \$248,797 in bond issuance costs) plus an additional \$2,178,165 in 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 and Series 2014A bonds. As a result, \$7,395,000 in Series 2012A bonds and \$32,285,000 in Series 2014A bonds are considered to be defeased and the liability for those bonds have been removed from the BWS's statements of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,851,972. 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 11 years by \$5,587,084 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3,209,930.

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 \$1,078,884 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, these Series 2012A bonds are considered to be defeased and the liability for those bonds have been removed from the BWS's statements of net position.

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.

As of June 30, 2021 and 2020, the total amount of debt defeased for financial reporting purposes that remains outstanding was \$83,295,000 and \$43,615,000, respectively.

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

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NOTE G - BONDS PAYABLE (Continued)

Debt service requirements on bonds payable at June 30, 2021 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 11,125,000	\$ 9,536,000	\$ 20,661,000
2023	12,605,000	9,679,000	22,284,000
2024	13,245,000	9,166,000	22,411,000
2025	13,690,000	8,705,000	22,395,000
2026	15,620,000	8,186,000	23,806,000
2027 - 2031	85,590,000	33,427,000	119,017,000
2032 - 2036	73,525,000	20,872,000	94,397,000
2037 - 2041	29,475,000	11,124,000	40,599,000
2042 - 2046	24,035,000	7,169,000	31,204,000
2047 - 2051	<u>25,525,000</u>	<u>2,471,000</u>	<u>27,996,000</u>
Total	\$ <u>304,435,000</u>	\$ <u>120,335,000</u>	\$ <u>424,770,000</u>

NOTE H - NOTES PAYABLE

At June 30, 2021 and 2020, notes payable from direct borrowings consisted of the following:

	<u>2021</u>	<u>2020</u>
Notes payable to Department of Health (DOH):		
Note payable in semi-annual installments of approximately \$146,900, including interest and loan fees at 1.5% per annum, due May 2034.	\$ 3,281,560	\$ 3,525,273
Note payable in semi-annual installments of approximately \$145,900, including interest and loan fees at 1.5% per annum, due May 2034.	3,259,706	3,501,824
Note payable in semi-annual installments of approximately \$144,000, including interest and loan fees at 1.5% per annum, due November 2034.	3,321,203	3,558,475
Non-interest bearing note payable in semi-annual installments of approximately \$202,000, including loan fees at 1.0% per annum, due November 2034.	<u>4,805,509</u>	<u>5,161,473</u>
Balance brought forward	\$ <u>14,667,978</u>	\$ <u>15,747,045</u>

**Board of Water Supply
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NOTE H - NOTES PAYABLE (Continued)

	<u>2021</u>	<u>2020</u>
Balance carried forward	\$ 14,667,978	\$ 15,747,045
Non-interest bearing note payable in semi-annual installments of approximately \$764,900, including loan fees at 1.0% per annum, due April 2034.	17,600,607	18,954,499
Non-interest bearing note payable in semi-annual installments of approximately \$258,700, including loan fees at 1.0% per annum, due December 2037.	7,852,111	8,220,611
Non-interest bearing note payable in semi-annual installments of approximately \$865,600, including loan fees at 1.0% per annum, due February 2039.	28,453,912	26,721,419
Note payable in semi-annual installments of approximately \$148,300, including interest and loan fees at 1.5% per annum, due October 2036.	4,085,677	4,318,459
Note payable in semi-annual installments of approximately \$231,800, including interest and loan fees at 1.25% per annum, due October 2038.	7,262,355	7,631,670
Note payable in semi-annual installments of approximately \$418,500, 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.	13,162,686	13,778,600
Note payable in semi-annual installments of approximately \$175,700, including interest and loan fees at 0.25% per annum, due April 2040. In fiscal year 2020, principal of \$1,230,600 was forgiven by the DOH.	<u>6,067,443</u>	<u>4,156,814</u>
Balance brought forward	\$ <u>99,152,769</u>	\$ <u>99,529,117</u>

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NOTE H - NOTES PAYABLE (Continued)

	<u>2021</u>	<u>2020</u>
Balance carried forward	\$ 99,152,769	\$ 99,529,117
Note payable in semi-annual installments of approximately \$119,500, including interest and loan fees at 2.15% per annum, due March 2039. In fiscal year 2020, principal of \$490,000 was forgiven by the DOH.	3,552,359	3,345,746
Note payable in semi-annual installments of approximately \$364,500, including interest and loan fees at 1.75% per annum, due October 2040.	12,000,000	--
Note payable in semi-annual installments of approximately \$193,400, including interest and loan fees at 2.15% per annum, due January 2040.	6,007,022	--
Notes payable to other lenders:		
Note payable in monthly installments of approximately \$15,700, including interest at 5.0%, due September 2025.	<u>699,443</u>	<u>845,727</u>
	121,411,593	103,720,590
Less current maturities	<u>6,937,565</u>	<u>5,754,780</u>
	<u>\$ 114,474,028</u>	<u>\$ 97,965,810</u>

The notes payable to the Department of Health are state revolving fund loans and are secured by the net revenue of the BWS, subject to and subordinate to the pledge of the net revenue securing the outstanding water system revenue bonds described in Note G. Proceeds from the loans were used to finance the construction of various components of the water system. As of June 30, 2021 and 2020, the total principal, interest, and loan fees remaining to be paid on the loans totaled \$136,014,000 and \$115,469,000, respectively. Principal, interest, and loan fees paid for the current year and revenues, net of specified operating and maintenance expenses, were approximately \$7,161,000 and \$71,622,000, respectively. The BWS's 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's 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.

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NOTE H - NOTES PAYABLE (Continued)

Debt service requirements on notes payable from direct borrowings at June 30, 2021 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Loan Fee	Total
2022	\$ 6,937,000	\$ 430,000	\$ 1,175,000	\$ 8,542,000
2023	7,006,000	404,000	1,108,000	8,518,000
2024	7,078,000	376,000	1,040,000	8,494,000
2025	7,151,000	347,000	972,000	8,470,000
2026	7,076,000	317,000	902,000	8,295,000
2027-2031	36,207,000	1,252,000	3,452,000	40,911,000
2032-2036	33,323,000	685,000	1,655,000	35,663,000
2037-2041	16,634,000	167,000	320,000	17,121,000
	<u>\$ 121,412,000</u>	<u>\$ 3,978,000</u>	<u>\$ 10,624,000</u>	<u>\$ 136,014,000</u>

NOTE I - LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal years ended June 30, 2021 and 2020 are as follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Bonds payable	\$ 260,490,000	\$ 93,535,000	\$ (49,590,000)	\$ 304,435,000	\$ 11,125,000
Add: unamortized premium	17,056,345	11,292,598	(5,543,830)	22,805,113	--
Total bonds payable	277,546,345	104,827,598	(55,133,830)	327,240,113	11,125,000
Notes payable	103,720,590	23,572,671	(5,881,668)	121,411,593	6,937,565
Accrued vacation	7,337,017	3,200,811	(2,664,192)	7,873,636	2,664,192
Accrued workers' compensation	4,801,628	1,367,098	(1,092,922)	5,075,804	1,416,262
Customer advances	2,348,616	9,091,860	(10,787,861)	652,615	--
Other	3,898,713	3,186,571	(668,804)	6,416,480	--
	<u>\$ 399,652,909</u>	<u>\$ 145,246,609</u>	<u>\$ (76,229,277)</u>	<u>\$ 468,670,241</u>	<u>\$ 22,143,019</u>

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NOTE I - LONG-TERM LIABILITIES (Continued)

	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>

NOTE J - NET POSITION

The BWS's net position consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Net investment in capital assets		
Capital assets, net	\$ 1,302,822,079	\$ 1,247,699,838
Deferred loss on refunding of debt	15,967,160	14,761,789
Less: water system revenue bonds payable	(327,240,113)	(277,546,345)
Less: notes payable	(121,411,593)	(103,720,590)
Less: contracts and accounts payable attributable to capital assets	(18,361,657)	(18,891,700)
Unspent debt proceeds	125,495,524	67,566,445
	<u>977,271,400</u>	<u>929,869,437</u>
Restricted for capital activity and debt service		
Restricted cash and cash equivalents	26,184,526	90,482,727
Restricted investments	133,834,549	10,874,633
Less: unspent debt proceeds	(125,495,524)	(67,566,445)
Less: accrued interest payable	(4,929,337)	(4,423,920)
Less: refundable advances	(189,733)	(362,237)
	<u>29,404,481</u>	<u>29,004,758</u>
Unrestricted	<u>261,485,528</u>	<u>291,541,624</u>
	<u>\$ 1,268,161,409</u>	<u>\$ 1,250,415,819</u>

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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 BWS also has operating leases conveying the right to use various office and information technology equipment under contracts that extend through March 2026. For the fiscal years ended June 30, 2021 and 2020, rent expense under these leases totaled \$295,000 and \$288,000, respectively.

The BWS leases certain properties to other users, primarily utility and telecommunications companies, under multi-year license agreements. The terms of these agreements range from 5 to 30 years 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, 2021 were as follows:

Fiscal Year Ending June 30,	Future Minimum Rental Payments	Future Minimum Rental Revenue
2022	\$ (294,000)	\$ 138,000
2023	(271,000)	124,000
2024	(175,000)	104,000
2025	(168,000)	104,000
2026	(35,000)	104,000
2027-2031	--	508,000
2032-2036	--	50,000
	<u>\$ (943,000)</u>	<u>\$ 1,132,000</u>

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, 2021 and 2020, fees related to these services totaled \$2,668,951 and \$2,656,182, 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 each of the fiscal years ended June 30, 2021 and 2020.

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NOTE L - RELATED PARTY TRANSACTIONS (Continued)

As of June 30, 2021 and 2020, amounts due from the City for water charges totaled \$1,500,262 and \$1,876,582, 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 \$0- and \$1,500,000 in advances from the City during the fiscal years ended June 30, 2021 and 2020, respectively. Unexpended advanced funds totaled \$2,325,955 and \$2,513,309 as of June 30, 2021 and 2020, respectively, and are included in other liabilities in the statements of net position.

The BWS received \$13,003 and \$902,356 in Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") funds from the City in fiscal year 2021 and 2020, respectively. 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 \$185,507 and \$540,119 as of June 30, 2021 and 2020; unspent amounts totaling \$189,733 and \$362,237 as of June 30, 2021 and 2020, 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.

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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.

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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
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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 24% and 22% for the fiscal years ended June 30, 2021 and 2020, respectively. For the fiscal years ended June 30, 2021 and 2020, contributions to the pension plan from the BWS totaled \$10,642,688 and \$9,411,347, 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.

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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, 2021 and 2020, the BWS reported a liability of \$132,989,070 and \$114,807,821, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, 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, 2020 and 2019, the BWS's proportion was 0.87% and 0.81%, respectively, which was a change of 0.06% and -0.09% from its proportion measured as of June 30, 2019 and 2018, respectively.

The actuarial assumptions used in the June 30, 2020 actuarial valuation are the same as those used in the prior valuation. The following changes were made to the actuarial assumptions used in the June 30, 2019 valuation:

- The assumed salary increase schedules include an ultimate component for general wage inflation that may add on additional increases for individual merit and then an additional component for step rates based on service.
- Mortality rates generally decreased due to the continued improvements in using a fully generational approach and Scale BB.
- The rates of disability of active employees increased for all general employees and teachers, and for police and fire from duty-related reasons.
- There were minor increases in the retirement rates for members in certain groups based on age, employment group, and/or membership class.

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NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

For the fiscal years ended June 30, 2021 and 2020, the BWS recognized pension expense of \$18,606,707 and \$16,642,432, respectively. At June 30, 2021 and 2020, the BWS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,488,024	\$ --
Changes of assumptions	3,743,080	--
Net difference between projected and actual earnings on pension plan investments	4,649,765	--
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,268,083	7,036,558
Employer contributions subsequent to the measurement date	<u>10,642,688</u>	<u>--</u>
	<u>\$ 28,791,640</u>	<u>\$ 7,036,558</u>
	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	<u>9,411,347</u>	<u>--</u>
	<u>\$ 21,818,025</u>	<u>\$ 10,283,163</u>

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NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

At June 30, 2021, the BWS reported \$10,642,688 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2021 will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Net Deferred Outflows
2022	\$ 3,826,250
2023	2,388,660
2024	2,055,799
2025	2,511,712
2026	329,973
	\$ 11,112,394

Actuarial assumptions. The total pension liability in the June 30, 2020 and 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2020	2019
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, 2020 and 2019 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 - 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.

Disabled retirees - 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.

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NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

The actuarial assumptions used in the actuarial valuation as of June 30, 2020 and 2019 were 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 long-term expected rate of returns on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) 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 nominal real rates of return (real returns + inflation) by the target allocation percentage. The target allocation and best estimates of geometric real rates of return as of June 30, 2020 and 2019 are summarized in the following tables:

Strategic Allocation (Risk-Based Classes)	June 30, 2020		
	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return *
Broad growth	63.00%	7.90%	5.70%
Diversifying strategies	37.00%	3.70%	1.50%
	<u>100.00%</u>		

* Uses an expected inflation of 2.20%

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%
	<u>100.00%</u>		

* Uses an expected inflation of 2.25%

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NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Discount rate. The discount rate used to measure the total pension liability at June 30, 2021 and 2020 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, 2021 and 2020 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, 2021		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
	\$ 170,790,555	\$ 132,989,070	\$ 101,825,319
Proportionate share of the net pension liability			
	June 30, 2020		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
	\$ 148,949,493	\$ 114,807,821	\$ 90,226,450
Proportionate share of the net pension liability			

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 <https://ers.ehawaii.gov/resources/financials>.

Payable to the Pension Plan

At June 30, 2021 and 2020, the amounts payable to the ERS totaled \$1,425,220 and \$1,454,111, respectively, which consists of statutorily required employer contributions for the months of June 2021 and 2020, respectively, and excess pension costs required by the HRS for fiscal years 2021 and 2020, respectively.

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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/reports>.

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 benefit terms as of July 1, 2020 and 2019:

	2021	2020
Inactive employees or beneficiaries currently receiving benefits	578	582
Inactive employees entitled but not yet receiving benefits	55	54
Active employees	570	579
	1,203	1,215

Contributions. The BWS’s contribution levels are established by Chapter 87A of the HRS. For the fiscal years ended June 30, 2021 and 2020, 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, 2021 and 2020, contributions to the OPEB plan from the BWS totaled \$8,452,000 and \$8,165,000, respectively, which resulted in an average contribution rate of approximately 19.2% and 19.9%, respectively, of covered-employee payroll.

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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, 2021 and 2020 was measured as of July 1, 2020 and 2019, 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, 2020 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 7.50%, declining to a rate of 4.70% after 13 years
HMO	Initial rate of 7.50%, declining to a rate of 4.70% after 13 years

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June 30, 2021 and 2020**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Part B & base monthly contribution	Initial rate of 5.00%, declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for first year, followed by 4.00% for all future years
Vision	Initial rate of 0.00% for first year, followed by 2.50% for all future years
Life insurance	0.00%

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
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 rate of 0.00% for first two years, followed by 2.50%
Life insurance	0.00%

Mortality rates used in the actuarial valuation as of July 1, 2020 and 2019 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 - 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.

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NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Disabled retirees - 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.

The actuarial assumptions used in the actuarial valuation as of June 30, 2020 and 2019 were 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 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, 2020 and 2019 are summarized in the following table:

Asset Class	2021		2020	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Non-U.S. equity	16.00%	7.72%	17.00%	6.90%
U.S. equity	14.00%	6.23%	15.00%	5.35%
Private equity	10.00%	9.66%	10.00%	8.80%
Core real estate	10.00%	5.98%	10.00%	3.90%
Trend following	8.00%	2.12%	9.00%	3.25%
U.S. microcap	6.00%	7.85%	7.00%	7.30%
Global options	6.00%	4.65%	7.00%	4.75%
Private credit	6.00%	5.50%	6.00%	5.60%
Long treasuries	6.00%	0.86%	6.00%	2.00%
Alternate risk premia	5.00%	1.56%	5.00%	2.75%
TIPS	5.00%	0.11%	5.00%	1.20%
Reinsurance	5.00%	4.34%	0.00%	0.00%
Core bonds	3.00%	0.08%	3.00%	1.50%
	100.00%		100.00%	

**Board of Water Supply
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NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

Discount rate. The discount rate used to measure the total OPEB liability at June 30, 2021 and 2020 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 ended June 30, 2021 and 2020:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2020	\$ <u>161,437,724</u>	\$ <u>87,622,469</u>	\$ <u>73,815,255</u>
Changes for the fiscal year:			
Service cost	2,663,788	--	2,663,788
Interest on the total OPEB liability	11,182,364	--	11,182,364
Difference between expected and actual experience	(9,526,120)	--	(9,526,120)
Changes of assumptions	(822,863)	--	(822,863)
Contributions - employer	--	8,165,000	(8,165,000)
Net investment income	--	1,666,459	(1,666,459)
Benefit payments	(6,043,131)	(6,043,131)	--
Administrative expense	--	(13,407)	13,407
Other	--	(13,477)	13,477
Net changes	<u>(2,545,962)</u>	<u>3,761,444</u>	<u>(6,307,406)</u>
Balance at June 30, 2021	\$ <u>158,891,762</u>	\$ <u>91,383,913</u>	\$ <u>67,507,849</u>

The healthcare trend assumption was updated in the July 1, 2020 actuarial valuation to reflect the repeal of the "Cadillac Tax" on high-cost employer health plans, which resulted in a decrease to the total OPEB liability as of June 30, 2021.

**Board of Water Supply
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NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

	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	--	2,370,283	(2,370,283)
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>

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, 2021		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ <u>91,034,131</u>	\$ <u>67,507,849</u>	\$ <u>48,945,425</u>
	June 30, 2020		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ <u>98,004,905</u>	\$ <u>73,815,255</u>	\$ <u>54,701,539</u>

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NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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, 2021		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ <u>48,480,126</u>	\$ <u>67,507,849</u>	\$ <u>91,969,052</u>
	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>

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

For the fiscal years ended June 30, 2021 and 2020, the BWS recognized OPEB expense of \$6,988,658 and \$5,483,936, respectively. At June 30, 2021 and 2020, the BWS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ 8,819,719
Changes of assumptions	1,731,095	673,091
Net difference between projected and actual earnings on OPEB plan investments	4,595,008	--
Employer contributions subsequent to the measurement date	8,452,000	--
	\$ <u>14,778,103</u>	\$ <u>9,492,810</u>

**Board of Water Supply
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NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

	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 OPEB plan investments	1,055,806	--
Employer contributions subsequent to the measurement date	8,165,000	--
	\$ 11,596,553	\$ 1,467,196

At June 30, 2021 the BWS reported \$8,452,000 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2021 will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	Net Deferred Inflows
2022	\$ (677,009)
2023	(347,544)
2024	(308,406)
2025	(903,035)
2026	(930,713)
	\$ (3,166,707)

NOTE N - COMMITMENTS AND CONTINGENCIES

Contract Commitments

Commitments, primarily for capital improvements, approximated \$407,246,000 and \$334,971,000 as of June 30, 2021 and 2020, respectively. Such amounts are to be funded by operating revenues, contributed capital, cash and investments on hand.

**Board of Water Supply
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NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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 a 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, 2020	0.87%	\$ 132,989,070	\$ 39,537,387	336%	53.18%
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, 2021	\$ 10,642,688	\$ 10,642,688	\$ --	\$ 41,699,341	25.5%
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%

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, 2021 and 2020**

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability				
Service cost	\$ 2,663,788	\$ 2,598,017	\$ 2,480,098	\$ 2,404,087
Interest on the total OPEB liability	11,182,364	10,592,452	10,129,142	9,685,512
Difference between expected and actual experience	(9,526,120)	(28,736)	(2,312,485)	--
Changes of assumptions	(822,863)	1,247,028	2,183,447	--
Benefit payments	<u>(6,043,131)</u>	<u>(5,985,550)</u>	<u>(5,855,338)</u>	<u>(5,724,727)</u>
Net change in total OPEB liability	(2,545,962)	8,423,211	6,624,864	6,364,872
Total OPEB liability - Beginning	<u>161,437,724</u>	<u>153,014,513</u>	<u>146,389,649</u>	<u>140,024,777</u>
Total OPEB liability - Ending	\$ <u>158,891,762</u>	\$ <u>161,437,724</u>	\$ <u>153,014,513</u>	\$ <u>146,389,649</u>
Plan fiduciary net position				
Contributions - employer	\$ 8,165,000	\$ 7,945,000	\$ 8,855,338	\$ 11,724,727
Net investment income	1,666,459	3,430,974	5,235,037	6,029,726
Benefit payments	(6,043,131)	(5,985,550)	(5,855,338)	(5,724,727)
Administrative expense	(13,407)	(25,068)	(15,933)	(13,794)
Other	<u>(13,477)</u>	<u>2,370,283</u>	<u>--</u>	<u>78,200</u>
Net change in plan fiduciary net position	3,761,444	7,735,639	8,219,104	12,094,132
Plan fiduciary net position - Beginning	<u>87,622,469</u>	<u>79,886,830</u>	<u>71,667,726</u>	<u>59,573,594</u>
Plan fiduciary net position - Ending	\$ <u>91,383,913</u>	\$ <u>87,622,469</u>	\$ <u>79,886,830</u>	\$ <u>71,667,726</u>
Net OPEB liability	\$ <u>67,507,849</u>	\$ <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	57.51%	54.28%	52.21%	48.96%
Covered-employee payroll	\$ 41,038,526	\$ 39,801,114	\$ 38,254,167	\$ 36,968,407
Net OPEB Liability as a Percentage of Covered-employee payroll	164.50%	185.46%	191.16%	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, 2021	\$ 8,452,000	\$ 8,452,000	\$ --	\$ 43,914,484	19.2%
June 30, 2020	\$ 8,165,000	\$ 8,165,000	\$ --	\$ 41,038,526	19.9%
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)	\$ 38,254,167	23.1%
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%

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, 2021 and 2020**

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The actuarially determined annual required contributions (“ARC”) for the fiscal year ended June 30, 2021 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, 2021:

Actuarial valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	16.8 as of June 30, 2021
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, 2021 and 2020**

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS (Continued)

The actuarially determined ARC for the fiscal year ended 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, 2021 and 2020**

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, 2021**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2021</u>
Water System Revenue Bonds					
Series 2012A					
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)	<u>8,535,000</u>
					<u>15,400,000</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	3.000%	12/9/2014	7/1/2028	(2)	930,000
Insured Serial Bonds	3.250%	12/9/2014	7/1/2031	(2)	4,470,000
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	<u>9,205,000</u>
					<u>69,370,000</u>
Water System Revenue Bonds					
Series 2014B (AMT)					
Taxable Serial Bonds					
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)	<u>2,045,000</u>
					<u>\$ 20,295,000</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, 2021**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2021</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	3,165,000
					<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, 2021**

	<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2021</u>
Water System Revenue Bonds					
Series 2020B					
Taxable Serial Bonds					
	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>46,730,000</u>
Water System Revenue Bonds					
Series 2021A (Tax Exempt)					
	5.000%	3/25/2021	7/1/2022	(2)	855,000
	5.000%	3/25/2021	7/1/2023	(2)	900,000
	5.000%	3/25/2021	7/1/2024	(2)	945,000
	5.000%	3/25/2021	7/1/2025	(2)	995,000
	5.000%	3/25/2021	7/1/2026	(2)	1,045,000
	5.000%	3/25/2021	7/1/2027	(2)	1,100,000
	5.000%	3/25/2021	7/1/2028	(2)	1,155,000
	5.000%	3/25/2021	7/1/2029	(2)	1,215,000
	5.000%	3/25/2021	7/1/2030	(2)	1,275,000
	5.000%	3/25/2021	7/1/2031	(2)	1,340,000
	5.000%	3/25/2021	7/1/2032	7/1/2031	1,410,000
	5.000%	3/25/2021	7/1/2033	7/1/2031	1,480,000
	3.000%	3/25/2021	7/1/2034	7/1/2031	1,540,000
	4.000%	3/25/2021	7/1/2035	7/1/2031	1,595,000
	4.000%	3/25/2021	7/1/2036	7/1/2031	1,660,000
	3.000%	3/25/2021	7/1/2037	7/1/2031	1,720,000
	4.000%	3/25/2021	7/1/2038	7/1/2031	1,785,000
	4.000%	3/25/2021	7/1/2039	7/1/2031	1,855,000

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(2) Noncallable.

**Board of Water Supply
City and County of Honolulu
SCHEDULE OF BONDS PAYABLE (Continued)
June 30, 2021**

<u>Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates (1)</u>	<u>Outstanding June 30, 2021</u>
4.000%	3/25/2021	7/1/2040	7/1/2031	1,930,000
3.000%	3/25/2021	7/1/2041	7/1/2031	2,000,000
4.000%	3/25/2021	7/1/2042	7/1/2031	2,070,000
4.000%	3/25/2021	7/1/2043	7/1/2031	2,155,000
4.000%	3/25/2021	7/1/2044	7/1/2031	2,245,000
4.000%	3/25/2021	7/1/2045	7/1/2031	2,335,000
4.000%	3/25/2021	7/1/2046	7/1/2031	2,430,000
5.000%	3/25/2021	7/1/2047	7/1/2031	2,545,000
5.000%	3/25/2021	7/1/2048	7/1/2031	2,675,000
5.000%	3/25/2021	7/1/2049	7/1/2031	2,810,000
5.000%	3/25/2021	7/1/2050	7/1/2031	2,955,000
				<u>\$ 50,020,000</u>

**Water System Revenue Bonds
Series 2021B
Taxable Serial Bonds**

0.160%	3/25/2021	7/1/2021	(2)	\$ 60,000
0.360%	3/25/2021	7/1/2023	(2)	3,430,000
0.520%	3/25/2021	7/1/2024	(2)	3,445,000
0.950%	3/25/2021	7/1/2025	(2)	990,000
1.160%	3/25/2021	7/1/2026	(2)	1,000,000
1.450%	3/25/2021	7/1/2027	(2)	7,700,000
1.600%	3/25/2021	7/1/2028	(2)	6,890,000
1.820%	3/25/2021	7/1/2029	(2)	7,965,000
1.970%	3/25/2021	7/1/2030	(2)	8,155,000
2.070%	3/25/2021	7/1/2031	(2)	3,880,000
				<u>43,515,000</u>
				<u>\$ 304,435,000</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, 2021 and 2020**

	2021	2020
REVENUES		
Water sales	\$ 235,431,118	\$ 228,467,575
Interest	7,792,266	7,994,046
Other	<u>3,283,179</u>	<u>3,565,485</u>
Total revenues	<u>246,506,563</u>	<u>240,027,106</u>
DEDUCTIONS		
Operating expenses	224,099,530	212,718,613
Less: depreciation expense	(47,141,796)	(45,796,106)
Less: allocated depreciation charges	<u>(2,073,228)</u>	<u>(1,709,271)</u>
Total deductions	<u>174,884,506</u>	<u>165,213,236</u>
Net revenues	\$ <u>71,622,057</u>	\$ <u>74,813,870</u>
NET REVENUE REQUIREMENT		
Greater of:		
1) Aggregate debt service	\$ 20,460,975	\$ 18,464,913
Required deposits	<u> --</u>	<u> --</u>
	\$ <u>20,460,975</u>	\$ <u>18,464,913</u>
2) Aggregate debt service	\$ 20,460,975	\$ 18,464,913
Minimum required debt service ratio	x <u> 1.20</u>	x <u> 1.20</u>
Net revenue requirement	\$ <u>24,553,170</u>	\$ <u>22,157,896</u>
Net revenue to aggregate debt service ratio	<u> 3.50</u>	<u> 4.05</u>