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OFFICE OF THE COUNTY AUDITOR

To the Honorable Mike White, Council Chair,
and Members of the County Council
County of Maui, Hawai'i

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Maui, State of Hawai'i (County) for the fiscal year ended June 30, 2016. We have also audited the financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County for the fiscal year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 17, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. The County adopted the provisions of Governmental Accounting Standings Board (GASB) Statement No. 72, *Fair Value Measurement and Application,* GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Estimate of the allowance for doubtful accounts
- Estimate of the useful lives of the County's capital assets used to compute depreciation expense
- Estimate of the liability for postretirement benefits other than pensions
- Estimate of the liability for the County's net pension liability
- Estimate of the loss reserves for claims and judgments
- Estimate of the landfill closure, post-closure cost liability, and pollution remediation obligation.

Management's estimate of the allowance for doubtful accounts is based on an analysis of past due accounts, the County's historical experience with the account, and other relevant factors to arrive at an overall assessment of whether the past due accounts will be collected. We evaluated the key factors and assumptions used to develop the estimate of the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciation recorded on capital assets is based in part on the estimated useful lives of those capital assets. We evaluated the key factors and assumptions used to develop the estimated useful lives used to depreciate the County's capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the liability for postretirement benefits other than pensions was determined using actuarial calculations. We evaluated the key factors and assumptions used to compute the liability for postretirement benefits other than pensions in determining that it is reasonable in relation to the financial statements taken as a whole.

The collective net pension liability, deferred inflows of resources, and deferred outflows of resources of the cost-sharing multiple employer defined pension plan administered by the State of Hawaii's Employee Retirement System was determined by an actuarial valuation. The County's proportionate share of the collective net pension liability, deferred inflows of resources, deferred outflow of resources was based on the County's contributions to the pension plan relative to the contributions of all participating employers during the measurement period. We evaluated the key factors and assumptions used to compute the liability for the pension plan and reviewed the pension plan auditor's report in determining that the County's share of the net pension liability is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the claims and judgments liability is based on the assessment of the County's legal counsel and an analysis of workers' compensation, automobile and general liability insurance claims. We evaluated the key factors and assumptions used to develop the estimate of the claims and judgments liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the landfill closure, post-closure cost liability, and pollution remediation obligation was determined by the County's engineers and the third party contractor. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

The following misstatements detected as a result of audit procedures were corrected by management:

1) Adjustment to properly state depreciation expense and accumulated depreciation (Department of Water Supply).

The following misstatements were detected as a result of audit procedures and were not corrected by management:

1) Adjustment to properly state accumulated depreciation (County).

2) Adjustment to properly capitalize interest on construction in progress (Department of Water Supply).

3) Adjustment to record vouchers payable (County and Department of Water Supply).

4) Adjustment to properly state net position for the 2015 expenses related to the Wellhead Project (Department of Water Supply).

5) Adjustment to record an allowance for a receivable balance (County).

6) Adjustment to record accounts receivable (County).

7) Adjustment to properly record reissued stale dated checks (County).

Management has determined that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 13, 2016 and an updated letter dated January 27, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the following which are required supplementary information (RSI) that supplements the basic financial statements:

- Management’s Discussion and Analysis (MD&A),
- Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund
- Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Highway Fund
- Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual -Sewer Fund
- Notes to the Budgetary Comparison Schedules
- Schedule of Funding Progress for the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)
- Schedule of County’s Proportionate Share of the Net Pension Liability
- Schedule of Employer Pension Contributions

Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Combining Statements; as well as Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual; Schedules of Revenues – Budget and Actual; Schedules of Appropriations, Expenditures, and Encumbrances; and Capital Assets Used in Operations of Governmental Activities, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Statistical section, which accompanies the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of the Chair and Members of the County Council and management of the County of Maui, Hawai'i, and is not intended to be, and should not be, used by anyone other than these specified parties.

N&K CPAs, Inc.

Honolulu, Hawaii
January 27, 2017