

**DEPARTMENT OF WATER SUPPLY
COUNTY OF MAUI
(A Proprietary Fund of the County of Maui)**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2016 and 2015



**DEPARTMENT OF WATER SUPPLY
COUNTY OF MAUI**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mike White, Chair,
and Members of the Council
County of Maui
Wailuku, Maui, Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County of Maui, as of and for the fiscal years ended June 30, 2016 and 2015, and the related notes to the 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 Department of Water Supply of the County of Maui, as of June 30, 2016 and 2015, 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.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the County of Maui that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the County of Maui as of June 30, 2016 and 2015, the changes in its financial position, or where applicable, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adjustment to Prior Period Financial Statements

As discussed in Note 13, certain amounts, related to pensions, were not properly reported in the fiscal year ended June 30, 2015. Accordingly, an adjustment has been made to restate the 2015 financial statements to correct the error. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Department's basic financial statements. The accompanying supplemental schedules of capital assets and of long-term debt general obligation bonds as of June 30, 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
December 13, 2016

**Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION
June 30, 2016 and 2015**

	2016	2015 (as restated)
CURRENT ASSETS		
Unrestricted:		
Equity in pooled cash and investments held in County Treasury	\$ 44,162,398	\$ 49,776,359
Customer receivables		
Billed	3,470,475	3,173,899
Less: allowance for doubtful accounts	<u>(141,524)</u>	<u>(136,412)</u>
	3,328,951	3,037,487
Unbilled	<u>2,677,024</u>	<u>2,799,110</u>
Total customer receivables	<u>6,005,975</u>	<u>5,836,597</u>
Water system development fee receivable	--	135,484
Materials and supplies	1,411,131	1,224,186
Other current assets	<u>244,832</u>	<u>837,375</u>
Total current unrestricted assets	<u>51,824,336</u>	<u>57,810,001</u>
RESTRICTED ASSETS		
Equity in pooled cash and investments held in County Treasury	<u>18,013,522</u>	<u>16,371,668</u>
Total current assets	<u>69,837,858</u>	<u>74,181,669</u>
CAPITAL ASSETS		
Utility plant in service	564,620,814	538,205,441
Less accumulated depreciation	<u>(273,532,918)</u>	<u>(257,901,850)</u>
	291,087,896	280,303,591
Construction work in progress	<u>40,902,841</u>	<u>45,327,370</u>
Total capital assets	<u>331,990,737</u>	<u>325,630,961</u>
TOTAL ASSETS	<u>401,828,595</u>	<u>399,812,630</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	4,313,509	2,920,438
Unamortized loss on advanced refunding	<u>228,730</u>	<u>117,326</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,542,239</u>	<u>3,037,764</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>406,370,834</u>	\$ <u>402,850,394</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION (Continued)
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u> (as restated)
CURRENT LIABILITIES		
Payable from unrestricted current assets		
Bonds payable, current portion	\$ 2,352,483	\$ 2,742,890
Notes payable, current portion	1,301,828	1,138,542
Accounts payable	2,294,685	3,655,706
Accrued vacation, current portion	817,781	957,741
Construction contracts payable, including retainages	818,919	1,541,430
Claims and judgments	1,239,213	1,444,995
Accrued interest payable	293,126	344,106
Customer advances for utility construction	40,666	80,823
	<u>9,158,701</u>	<u>11,906,233</u>
Payable from restricted assets		
Construction contracts payable, including retainages	2,317,913	2,693,053
Customer deposits	609,343	698,309
Refundable advances	1,000,000	1,000,000
	<u>3,927,256</u>	<u>4,391,362</u>
Total current liabilities	<u>13,085,957</u>	<u>16,297,595</u>
NON-CURRENT LIABILITIES		
Bonds payable, non-current portion	24,932,975	27,202,780
Notes payable, non-current portion	20,957,731	19,330,358
Net pension liability	26,679,011	24,207,754
Accrued vacation, non-current portion	1,226,308	1,051,319
	<u>73,796,025</u>	<u>71,792,211</u>
Total non-current liabilities	<u>73,796,025</u>	<u>71,792,211</u>
TOTAL LIABILITIES	<u>86,881,982</u>	<u>88,089,806</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	2,006,618	3,267,855
Unamortized gain on advanced refunding	450,680	--
	<u>2,457,298</u>	<u>3,267,855</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,457,298</u>	<u>3,267,855</u>
NET POSITION		
Net investment in capital assets	284,873,915	275,703,978
Restricted	14,825,370	11,612,015
Unrestricted	17,332,279	24,176,740
	<u>317,031,554</u>	<u>311,492,733</u>
TOTAL NET POSITION	<u>317,031,554</u>	<u>311,492,733</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 406,370,834</u>	<u>\$ 402,850,394</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u> <u>(as restated)</u>
OPERATING REVENUES		
Water sales	\$ 59,917,911	\$ 59,015,627
Other revenues	<u>625,701</u>	<u>270,895</u>
Total operating revenues	<u>60,543,612</u>	<u>59,286,522</u>
OPERATING EXPENSES		
Depreciation and amortization	16,254,652	14,431,573
Administrative and general	17,705,445	19,004,882
Power and pumping	10,826,084	13,303,978
Transmission and distribution	7,030,067	7,095,858
Purification	6,271,993	7,018,633
Customers' accounting and collection	1,555,614	1,560,634
Source of supply	<u>1,517,429</u>	<u>723,612</u>
Total operating expenses	<u>61,161,284</u>	<u>63,139,170</u>
Operating loss	<u>(617,672)</u>	<u>(3,852,648)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense, net of interest capitalized of \$64,488 for 2016 and \$108,342 for 2015	(919,220)	(1,375,269)
Interest and investment earnings	<u>610,572</u>	<u>322,326</u>
Total nonoperating expenses, net	<u>(308,648)</u>	<u>(1,052,943)</u>
Loss before capital contributions	(926,320)	(4,905,591)
Capital contributions	<u>6,465,141</u>	<u>5,642,587</u>
CHANGE IN NET POSITION	<u>5,538,821</u>	<u>736,996</u>
NET ASSETS AT BEGINNING OF YEAR	<u>311,492,733</u>	<u>310,755,737</u>
NET POSITION AT END OF FISCAL YEAR	<u>\$ 317,031,554</u>	<u>\$ 311,492,733</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u> <u>(as restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	\$ 60,548,141	\$ 59,020,554
Payments to suppliers for goods and services	(36,893,813)	(35,591,967)
Payments to employees for services	(10,458,119)	(10,603,511)
Refunds of utility construction advances	<u>(129,123)</u>	<u>(28,778)</u>
Net cash provided by operating activities	<u>13,067,086</u>	<u>12,796,298</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment earnings received from investments	<u>610,572</u>	<u>322,326</u>
Net cash provided by investing activities	<u>610,572</u>	<u>322,326</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for acquisition of construction of capital assets, including capitalized interest	(19,081,112)	(18,334,966)
Principal paid on bonds and notes	(9,203,987)	(3,687,745)
Proceeds from bonds and notes payable	9,247,860	10,630,571
Cash received from capital contributions	2,996,313	3,549,069
Interest paid on bonds and notes payable	<u>(1,608,839)</u>	<u>(1,067,045)</u>
Net cash used in capital and related financing activities	<u>(17,649,765)</u>	<u>(8,910,116)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,972,107)	4,208,508
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	<u>66,148,027</u>	<u>61,939,519</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	\$ <u>62,175,920</u>	\$ <u>66,148,027</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2016 and 2015**

	2016	2015 (as restated)
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (617,672)	\$ (3,852,648)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	16,254,652	14,431,573
Bad debt expense	26,174	47,148
Pension expense	2,257,225	2,821,120
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Customer receivables	(60,068)	(317,509)
Materials and supplies	(186,945)	(232,322)
Other current assets	592,543	(519,401)
Deferred outflows of resources related to pensions	(2,440,276)	(2,612,602)
Accounts and construction contracts payable	(2,820,646)	2,217,329
Claims and judgments	(205,782)	783,563
Other liabilities and deposits	267,881	30,047
Net cash provided by operating activities	\$ 13,067,086	\$ 12,796,298
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	\$ 3,468,828	\$ 2,093,518
Amortization of deferred loss on refunding	\$ 67,731	\$ 54,150
Amortization of deferred gain on refunding	\$ 225,338	\$ --
Amortization of bond premium	\$ 416,544	\$ 285,354

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) **Organization** - The Department of Water Supply (the Department) operates as a proprietary fund in the County of Maui, State of Hawaii (the County), to develop adequate water sources, storage, and transmission for both urban and agricultural uses for the County. The County Charter amendment (effective January 2, 2003) provides the following:
- The Department is a regular County of Maui agency subject to the Mayor's executive management and Council's legislative oversight.
 - The current Board of Directors of the Department is an advisory body (with power to recommend budget proposals and rate adjustments).
 - The Mayor has the power to appoint the Director (with approval of Council).
 - The Department has the responsibility to survey public and private water sources.
 - The Department must prepare and annually update a long-range capital improvement plan (subject to Council approval) and implement such approved plans. The Council has the power to issue general obligation bonds and provide appropriations for capital improvements of the water system.
- (2) **Financial Statement Presentation** - The Department is a proprietary type fund of the County (the primary government). The accompanying financial statements present only the financial activities of the Department and do not include other organizations, departments, activities, and/or functions of the County. Accordingly, the accompanying financial statements are not intended to present the financial position and the changes in financial position and cash flows of the County in conformity with accounting principles generally accepted in the United States of America (GAAP).
- (3) **Measurement Focus and Basis of Accounting** - The accounting policies of the Department conform to GAAP as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board (GASB). The Department's operations are accounted for on the flow of economic resources measurement focus, and the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Department applies all applicable GASB Statements and Interpretations.

The Department follows the provisions of GASB Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments.*" Statement 34 established standards for external financial reporting for all state and local governmental entities, including proprietary type enterprise funds such as the Department, which require a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. It requires the classification of net position into three components - net investment in capital assets, restricted, and unrestricted.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

These classifications are defined as follows:

- *Net investment in capital assets* - This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at fiscal year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds.
 - *Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Department's policy is generally to use restricted net position first, as appropriate opportunities arise.
 - *Unrestricted* - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."
- (4) **Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (5) **Customer Receivables and Allowance for Doubtful Accounts** - Customer receivables are net of an allowance for doubtful accounts. The Department considers accounts delinquent once they have reached 31 days past due. Management charges off uncollectible customer receivables to expense and turns over delinquent accounts for collection when it is determined the amounts will not be realized. The allowance for doubtful accounts is based on the Department's prior experience of collections.

Total accounts receivable past due for over 90 days amounted to approximately \$259,000 and \$220,300 as of June 30, 2016 and 2015, respectively.

- (6) **Restricted Assets** - Funds received by the Department, which are refundable or restricted as to use, are recorded as restricted assets.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

- (7) **Utility Plant in Service and Depreciation** - On July 1, 1949, by authority of Act 289, Session Laws of Hawaii 1949, the County transferred the then existing water transmission and distribution system to the Maui County Waterworks Board. An estimated fair value of approximately \$805,300 was determined by the Board and assigned to the assets acquired.

Additions to the utility plant in service are stated at cost and include contributions by governmental agencies, private developers, and customers at their cost or estimated cost. The Department defines capital assets as individual assets or group of similar assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year.

Major replacements, renewals and betterments are capitalized. Maintenance, repairs, and replacements that do not improve or extend lives of the assets are charged to expense.

Gains or losses resulting from the sale, retirement, or disposal of utility plant are charged or credited to operations in the year realized.

Depreciation on the utility plant in service is computed over the estimated useful lives of the individual assets using the straight-line method. The estimated useful lives of the utility plant's capital assets are as follows:

Office equipment	5 - 20 years
Transportation and construction equipment	5 - 10 years
Improvements	10 - 50 years

- (8) **Cash and Investments** - The Department's cash and investments are maintained in an investment pool with the County's Treasury. The Department's share of the pooled cash and investments and income and losses arising from the investment activity of the pool are allocated to the Department based on the percentage of the Department's total cash and investment balance to the total cash and investments maintained by the County's Treasury.

Investments in time certificates of deposits and repurchase agreements are carried at cost, which approximates fair value. Investments in U.S. Treasury and U.S. agencies obligations are reported at fair value.

- (9) **Cash Equivalents** - For purposes of the statements of cash flows, the Department considers all equity in pooled cash and investments held in the County's Treasury (including restricted assets) to be cash equivalents.

Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

- (10) **Materials and Supplies** - Materials and supplies are stated at cost on an average cost basis.
- (11) **Debt Premium and Discounts** - Debt premium and discounts arising from the issuance of debt securities are amortized over the terms of the related issues on the bonds outstanding method. Amortization of debt premiums is recorded as a reduction of interest expense.
- (12) **Deferred Amounts on Advance Refundings** - For advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the carrying amount of the old debt is deferred. This amount is amortized as a component of interest expense using the bonds outstanding method over the remaining life of the old debt or the life of the new, whichever is shorter. The amount deferred is reported as a deferred inflow or outflow of resources.
- (13) **Compensated Absences** - Employees earn vacation benefits at one and three-quarters working days for each month of service. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. Unused vacation benefits are converted to pay upon termination of employment.
- (14) **Deferred Outflows of Resources and Deferred Inflows of Resources** - Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense or expenditure) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.
- (15) **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 (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.
- (16) **Operating Revenues and Expenses** - Revenues and expenses are distinguished between operating and non-operating.
- Operating Revenues - Operating revenues generally result from providing goods and services in connection with the Department's principal ongoing operations. The principal operating revenues of the Department are fees for water service.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

The Department's policy is to bill customers on a monthly basis for water usage. An estimated accrual for unbilled water revenues to the end of the fiscal period is made based on prorated actual usage from the first meter reading date subsequent to June 30th.

- Operating Expenses - Operating expenses include the costs associated with production, treatment, and transmission of water, including administrative expenses and depreciation on capital assets.

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

- (17) **Capitalization of Interest** - Interest costs are capitalized during the construction period of major capital projects.
- (18) **Water System Development Fee** - A water system development fee is levied against all new developments requiring water from the Department'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, net of costs incurred for water credits used to acquire additional water supply, are recorded as capital contributions.
- (19) **Capital Contributions** - The Department receives Federal and State of Hawaii grants to pay for portions of construction costs related to various capital projects. The Department also receives development fees and dedications of infrastructure assets for various developments. The amounts received are recorded as capital contributions in the accompanying statements of revenues, expenses, and changes in net position.
- (20) **Subsequent Events** - The Department evaluated subsequent events through December 13, 2016, the date the financial statements were available to be issued. There were no subsequent events that required adjustment to or disclosure in the financial statements.
- (21) **New Accounting Pronouncements** - The Government Accounting Standards Board (the "GASB") issued Statement No. 72, *Fair Value Measurement and Application*. The Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The Statement will also enhance fair value application guidance and disclosure. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Management has adopted the new standard as presented in the Department's financial statements.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

The GASB issued 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*. The Statement establishes accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management has adopted the applicable requirements of the new standard as presented in the Department's financial statements.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Statement will require the liability of employers for defined benefit OPEB to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. Management has not yet determined the effect this Statement will have on the Department's financial statements, but anticipate that it will materially impact the Department's financial statements.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement reduces the generally accepted accounting principles ("GAAP") to two categories of authoritative GAAP. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category includes GASB Implementation Guides, GASB Technical Bulletins, and guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. Management has adopted the applicable requirements of the new standard as presented in the Department's financial statements.

The GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Management has determined that this Statement will not have an effect on the Department's financial statements.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of Statement No. 68 to exclude certain pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Statement addresses how certain state and local government external investment pools – and participants in those pools – may measure and report their investments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions, which are effective for reporting periods beginning after December 15, 2015. Management has determined that this Statement does not have a material effect on the Department's financial statements.

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Management has determined that this Statement does not have a material effect on the Department's financial statements.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. Management has determined that this Statement does not have a material effect on the Department's financial statements.

The GASB issued Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management has not yet determined the effect this Statement will have on the Department's financial statements.

NOTE 2 - CASH AND INVESTMENTS

The Department's cash and investments are maintained with the County's Treasury in a cash and investment pool available for use by all of the County's funds. At June 30, 2016 and 2015, the amounts reported on the statements of net position as equity in pooled cash and investments held in County Treasury represents the Department's relative position in the County's cash and investment pool and amounted to \$62,175,920 and \$66,148,027, respectively.

County's Investment Policy

State statutes authorize the County to invest in obligations of the U.S. Treasury and U.S. agency securities, obligations of the State and the County, bank repurchase agreements, and commercial paper. It is the County's policy to invest in accordance with the State of Hawaii statutes.

Specific requirements under the State statutes are as follows:

- With the exception of U.S. Treasury securities, no more than 50% of the County's investment portfolio will be invested in a single type of security or financial institution.
- Investment maturities are not to exceed five years.
- Investments are required to be rated Aaa by Moody's and AAA by Standard and Poor's.

For purpose of the disclosures required by GASB, all time certificates of deposits regardless of maturity are considered deposits and all repurchase agreements and money market investments are considered investments.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investment Risk - The investments are subject to certain types of risk, including interest rate risk, credit quality risk, concentration of credit risk, custodial credit risk, and foreign currency risk.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligation. The County's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposits, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of the County's investments in a single issuer or investment. The County diversifies its investments to minimize such risk.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of failure of the counterparty to an investment, the County would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All of the County's investments are either insured or held by an agent in the name of the County, including the investment collateral underlying the repurchase agreements.

Custodial credit risk for bank depository accounts is the risk that in the event of a bank failure, the County's deposits may not be returned. It is the County's policy to place its bank deposits with State of Hawaii high credit quality financial institutions that are able to meet the collateral requirements for the County's deposits. As of June 30, 2016 and 2015, all of the County's time certificates of deposits and cash deposits were insured and collateralized.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2016 and 2015, the investments in the County's investment pool were not subject to foreign currency risk.

Pooled Cash and Investments Held in County Treasury

Information relating to individual bank balances, insurance, and collateral of cash deposits is determined on a county-wide basis and not for individual departments and funds. Information regarding the carrying amount and corresponding bank balances of the County's cash and investment pool and collateralization of those balances is included in the County's comprehensive annual financial report.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2 - CASH AND INVESTMENTS (Continued)

The Department's share of the County's cash and investment pool, as summarized in the tables below was approximately 18.7% and 21.5% at June 30, 2016 and 2015, respectively.

As of June 30, 2016, the County's cash and investments were as follows:

Type of Investment	% Yield	Maturity				Premiums (Discounts)	Fair Value
		Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years		
Federal National Mortgage Association Coupon Notes	0.67 - 1.73	\$ 2,000,000	\$ 1,000,000	\$ 11,500,000	\$ 27,500,000	\$ 307,314	\$ 42,307,314
Federal Home Loan Bank Bank Notes	0.76 - 2.00	--	--	3,500,000	50,225,000	(970)	53,724,030
Federal Farm Credit Bank Notes	0.75 - 0.94	--	--	750,000	4,000,000	3,036	4,753,036
Federal Agricultural Mortgage Corporation Notes	0.64 - 0.88	--	100,000	--	19,000,000	599	19,100,599
Federal Home Loan Mortgage Corporation Notes	0.90 - 1.91	--	--	3,000,000	21,500,000	3,858	24,503,858
U.S. Treasury Strips	1.399	--	--	--	3,000,000	(84,989)	2,915,011
U.S. Treasury Notes	0.97 - 1.19	--	--	825,000	2,800,000	(23,837)	3,601,163
State and County obligations	0.76 - 2.04	--	--	--	21,400,000	90,941	21,490,941
Total investments		\$ <u>2,000,000</u>	\$ <u>1,100,000</u>	\$ <u>19,575,000</u>	\$ <u>149,425,000</u>	\$ <u>295,952</u>	172,395,952
Type of Deposits							
Various certificates of deposit	0.10 - 2.30	\$ --	\$ --	\$ --	\$ 89,429,686		89,429,686
							Total investments and certificates of deposit 261,825,638
							Cash on hand and deposits 69,889,618
							Total equity in pooled cash and investments \$ <u>331,715,256</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2 - CASH AND INVESTMENTS (Continued)

As of June 30, 2015, the County's cash and investments were as follows:

Type of Investment	% Yield	Maturity				Premiums (Discounts)	Fair Value
		Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years		
Federal National Mortgage Association Coupon Notes	0.37 - 1.89	\$ 5,000,000	\$ 10,010,000	\$ --	\$ 38,500,000	\$ 535,861	\$ 54,045,861
Federal Home Loan Bank Bank Notes	0.18 - 2.00	--	4,000,000	--	16,000,000	47,603	20,047,603
Federal Farm Credit Bank Notes	0.28 - 0.94	--	2,270,000	21,250,000	8,750,000	5,077	32,275,077
Federal Agricultural Mortgage Corporation Notes	0.25 - 0.88	1,000,000	3,750,000	4,500,000	19,100,000	3,030	28,353,030
Federal Home Loan Mortgage Corporation Notes	0.24 - 1.67	--	7,000,000	--	32,625,000	(13,271)	39,611,729
U.S. Treasury Strips	1.38	--	--	--	3,000,000	(125,125)	2,874,875
U.S. Treasury Notes	0.22 - 1.19	--	3,500,000	11,000,000	3,625,000	(33,001)	18,091,999
Total investments		\$ 6,000,000	\$ 30,530,000	\$ 36,750,000	\$ 121,600,000	\$ 420,174	195,300,174
Type of Deposits							
Various certificates of deposit	0.10 - 2.20	\$ --	\$ --	\$ --	\$ 33,709,409		33,709,409
Total investments and certificates of deposit							229,009,583
Cash on hand and deposits							78,502,038
Total equity in pooled cash and investments							\$ 307,511,621

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Unrestricted cash, cash equivalents, and investments at June 30, 2016 and 2015 include funds for the following purposes:

	<u>2016</u>	<u>2015</u>
Board-designated		
Capital improvements	\$ 14,073,479	\$ 17,623,379
Debt service	<u>1,655,883</u>	<u>1,521,406</u>
Total board-designated	15,729,362	19,144,785
Undesignated	<u>28,433,036</u>	<u>30,631,574</u>
Total	\$ <u>44,162,398</u>	\$ <u>49,776,359</u>

At June 30, 2016 and 2015, construction contract payables, including retentions, to be paid with board-designated funds were approximately \$800,000 and \$1.5 million, respectively. Construction contract commitments as of June 30, 2016 and 2015, to be paid with board-designated funds, aggregated approximately \$5.9 million and \$8.7 million, respectively. There are no amounts included in the construction contract commitment amounts for 2016 for maintenance of compliance-order projects and no amounts included for management's estimates needed in anticipation of future regulations for compliance.

Restricted cash and investments consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Water system development fee	\$ 8,657,633	\$ 9,689,655
Bond funds	2,650,134	4,133,804
State funds	5,000,000	346,463
Customer deposits	609,286	698,309
Federal funds	605,529	1,068,040
Special assessment fund for storage	273,829	252,219
Source development fund assessments	205,525	183,178
Construction fund	<u>11,586</u>	<u>--</u>
Total	\$ <u>18,013,522</u>	\$ <u>16,371,668</u>

At June 30, 2016 and 2015, construction voucher and contract payables, including retentions, to be paid with restricted assets were approximately \$2.3 million and \$2.7 million, respectively. Construction contract commitments as of June 30, 2016 and 2015, to be paid with restricted assets, aggregated approximately \$14.2 million and \$14.6 million, respectively.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 - 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 are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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, a level 2 input must be observable for most of 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 are unobservable for an asset or liability.

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

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

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

	Assets at Fair Value at June 30, 2016			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 6,516,174	\$ 6,516,174	\$ --	\$ --
U. S. government agencies	144,388,837	--	144,388,837	--
State and County obligations	21,490,941	--	21,490,941	--
	<u>\$ 172,395,952</u>	<u>\$ 6,516,174</u>	<u>\$ 165,879,778</u>	<u>\$ --</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

	Assets at Fair Value at June 30, 2015			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 20,966,874	\$ 20,966,874	\$ --	\$ --
U. S. government agencies	<u>174,333,300</u>	<u>--</u>	<u>174,333,300</u>	<u>--</u>
	<u>\$ 195,300,174</u>	<u>\$ 20,966,874</u>	<u>\$ 174,333,300</u>	<u>\$ --</u>

NOTE 4 - RESTRICTED NET POSITION

At June 30, 2016 and 2015, restricted net position consisted of the following:

	2016	2015
Water system development fee	\$ 8,657,633	\$ 9,689,655
Special assessment fund for storage	273,829	252,219
Source development fund assessments	205,525	183,178
Other restricted funds	<u>5,688,383</u>	<u>1,486,963</u>
Total	<u>\$ 14,825,370</u>	<u>\$ 11,612,015</u>

NOTE 5 - CAPITAL CONTRIBUTIONS

Capital contributions during the fiscal years ended June 30, 2016 and 2015, were as follows:

	2016	2015
Dedication of infrastructure assets	\$ 3,468,828	\$ 2,093,518
Source development fund assessments	1,350,067	1,948,382
Other	<u>1,646,246</u>	<u>1,600,687</u>
Total	<u>\$ 6,465,141</u>	<u>\$ 5,642,587</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 6 - CAPITAL ASSETS

Capital assets activity during the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Reductions/ Retirements	Balance June 30, 2016
Non-depreciable assets				
Land	\$ 6,931,003	\$ 416,245	\$ --	\$ 7,347,248
Construction in progress	<u>45,327,370</u>	<u>18,977,928</u>	<u>(23,402,457)</u>	<u>40,902,841</u>
	<u>52,258,373</u>	<u>19,394,173</u>	<u>(23,402,457)</u>	<u>48,250,089</u>
Depreciable assets				
Buildings and systems	133,685,739	9,932,938	--	143,618,677
Machinery and equipment	386,659,609	16,381,217	(628,846)	402,411,980
Other	<u>10,929,090</u>	<u>313,819</u>	<u>--</u>	<u>11,242,909</u>
	<u>531,274,438</u>	<u>26,627,974</u>	<u>(628,846)</u>	<u>557,273,566</u>
Accumulated depreciation				
Buildings and systems	64,129,554	4,315,123	--	68,444,677
Machinery and equipment	189,541,575	11,822,743	(623,584)	200,740,734
Other	<u>4,230,721</u>	<u>116,786</u>	<u>--</u>	<u>4,347,507</u>
	<u>257,901,850</u>	<u>16,254,652</u>	<u>(623,584)</u>	<u>273,532,918</u>
Total Capital Assets	\$ <u>325,630,961</u>	\$ <u>29,767,495</u>	\$ <u>(23,407,719)</u>	\$ <u>331,990,737</u>

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

	Balance July 1, 2014	Additions	Reductions/ Retirements	Balance June 30, 2015
Non-depreciable assets				
Land	\$ 6,931,003	\$ --	\$ --	\$ 6,931,003
Construction in progress	<u>49,734,238</u>	<u>17,943,378</u>	<u>(22,350,246)</u>	<u>45,327,370</u>
	<u>56,665,241</u>	<u>17,943,378</u>	<u>(22,350,246)</u>	<u>52,258,373</u>
Depreciable assets				
Buildings and systems	129,147,752	4,537,987	--	133,685,739
Machinery and equipment	366,545,105	20,136,611	(22,107)	386,659,609
Other	<u>10,768,336</u>	<u>160,754</u>	<u>--</u>	<u>10,929,090</u>
	<u>506,461,193</u>	<u>24,835,352</u>	<u>(22,107)</u>	<u>531,274,438</u>
Accumulated depreciation				
Buildings and systems	60,545,773	3,583,781	--	64,129,554
Machinery and equipment	178,931,854	10,631,828	(22,107)	189,541,575
Other	<u>4,014,757</u>	<u>215,964</u>	<u>--</u>	<u>4,230,721</u>
	<u>243,492,384</u>	<u>14,431,573</u>	<u>(22,107)</u>	<u>257,901,850</u>
Total Capital Assets	\$ <u>319,634,050</u>	\$ <u>28,347,157</u>	\$ <u>(22,350,246)</u>	\$ <u>325,630,961</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 7 - LONG-TERM LIABILITIES

A summary of long-term liabilities of the Department of Water Supply as of June 30, 2016, are as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Bonds payable	\$ 29,945,670	\$ 6,255,413	\$ 8,915,625	\$ 27,285,458	\$ 2,352,483
Notes payable	20,468,900	2,992,447	1,201,788	22,259,559	1,301,828
Accrued vacation payable	2,009,060	838,796	803,767	2,044,089	817,781
Claims and judgments	<u>1,444,995</u>	<u>314,863</u>	<u>520,645</u>	<u>1,239,213</u>	<u>1,239,213</u>
Total	\$ <u>53,868,625</u>	\$ <u>10,401,519</u>	\$ <u>11,441,825</u>	\$ <u>52,828,319</u>	\$ <u>5,711,305</u>

A summary of long-term liabilities of the Department of Water Supply as of June 30, 2015, are as follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Bonds payable	\$ 25,601,815	\$ 7,288,177	\$ 2,944,322	\$ 29,945,670	\$ 2,742,890
Notes payable	17,671,673	3,826,002	1,028,775	20,468,900	1,138,542
Accrued vacation payable	2,071,555	925,038	987,533	2,009,060	957,741
Claims and judgments	<u>661,432</u>	<u>1,195,807</u>	<u>412,244</u>	<u>1,444,995</u>	<u>1,444,995</u>
Total	\$ <u>46,006,475</u>	\$ <u>13,235,024</u>	\$ <u>5,372,874</u>	\$ <u>53,868,625</u>	\$ <u>6,284,168</u>

NOTE 8 - BONDS PAYABLE

At June 30, 2016 and 2015, bonds payable consisted of the following:

	<u>2016</u>	<u>2015</u>
General Obligation Refunding Bonds, 2005 Series B, due in annual installments through 2018, interest payable semi-annually from 3.5% to 5.0%. These bonds were refunded by 2015 Series B bonds.	\$ --	\$ 3,035,000
General Obligation Refunding Bonds, 2008 Series A, due in annual installments through 2028, interest payable semi-annually from 3.5% to 5.0%. These bonds were partially refunded by 2015 Series D bonds.	537,113	4,353,354
General Obligation Refunding Bonds, 2010 Series B, due in annual installments through 2021, interest payable semi-annually from 4.0% to 5.0%.	<u>2,003,610</u>	<u>2,357,118</u>
Balance forward	\$ <u>2,540,723</u>	\$ <u>9,745,472</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8 - BONDS PAYABLE

	<u>2016</u>	<u>2015</u>
Balance carried forward	\$ 2,540,723	\$ 9,745,472
General Obligation Refunding Bonds, 2012 Series B, due in annual installments through 2032, interest payable semi-annually from 2.1% to 5.0%	3,582,283	3,737,551
General Obligation Refunding Bonds, 2012 Series C, due in annual installments through 2023, interest payable semi-annually from 4.0% to 5.0%	6,605,000	7,385,000
General Obligation Refunding Bonds, 2014 Series C, due in annual installments through 2034, interest payable semi-annually from 3.0% to 5.0%	6,315,000	6,545,000
General Obligation Refunding Bonds, 2015 Series B, due in annual installments through 2020, interest payable semi-annually from 3.0% to 5.0%	2,159,124	--
General Obligation Refunding Bonds, 2015 Series D, due in annual installments through 2027, interest payable semi-annually from 3.0% to 5.0%	<u>3,269,112</u>	<u>--</u>
	24,471,242	27,413,023
Less current portion	<u>(2,352,483)</u>	<u>(2,742,890)</u>
	22,118,759	24,670,133
Unamortized premium	<u>2,814,216</u>	<u>2,532,647</u>
Noncurrent portion	\$ <u>24,932,975</u>	\$ <u>27,202,780</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8 - BONDS PAYABLE (Continued)

Future bond principal and interest payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,352,483	\$ 1,040,912	\$ 3,393,395
2018	2,446,731	929,821	3,376,552
2019	2,578,898	807,512	3,386,410
2020	2,705,708	681,528	3,387,236
2021	2,232,697	564,404	2,797,101
2022 - 2026	6,805,078	1,524,183	8,329,261
2027 - 2031	3,717,166	575,826	4,292,992
2032 - 2034	<u>1,632,481</u>	<u>97,199</u>	<u>1,729,680</u>
Total	\$ <u>24,471,242</u>	\$ <u>6,221,385</u>	\$ <u>30,692,627</u>

In September 2015, the County issued \$60,155,000 in general obligation bonds which consisted of \$15,185,000 of 2015 Series A, \$14,520,000 of 2015 Series B bonds, \$6,965,000 in 2015 Series C bonds and \$23,485,000 in 2015 Series D bonds. The proceeds of the issuance were used to prepay the County's outstanding loan from the United States Department of Agriculture, refund all of the outstanding Series 2005 bonds and to defease and advance refund the County's Series 2008 bonds. Consequently, the Series 2005 bonds and the Series 2008 bonds were considered defeased and were removed from the County's and Departments' financial statements in 2016. This refunding was undertaken to reduce total debt service payments by approximately \$6,027,000 and resulted in an economic gain of approximately \$5,304,000. At June 30, 2016 and 2015, the County's and Departments' defeased bonds totaled \$44,795,000 and \$19,205,000, respectively.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 9 - NOTES PAYABLE

At June 30, 2016 and 2015, notes payable consisted of the following:

	<u>2016</u>	<u>2015</u>
Notes payable to State of Hawaii, Department of Health		
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.37%, and loan fee rate of 3.25%, maturing in 2029.	\$ 1,210,648	\$ 1,301,387
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.00%, and loan fee rate of 3.25%, maturing in 2031.	518,776	553,361
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.35%, and loan fee rate of 3.25%, maturing in 2032.	2,771,600	2,945,305
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.00%, and loan fee rate of 3.25%, maturing in 2032.	905,569	837,883
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2032.	199,510	210,952
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.50%, and loan fee rate of 1.00%, maturing in 2033.	<u>1,846,775</u>	<u>807,034</u>
Balance forward	\$ <u>7,452,878</u>	\$ <u>6,655,922</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 9 - NOTES PAYABLE (Continued)

	<u>2016</u>	<u>2015</u>
Balance carried forward	\$ 7,452,878	\$ 6,655,922
Notes payable to Department of Health (Continued)		
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2033.	746,910	786,987
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.00%, and loan fee rate of 1.00%, maturing in 2033.	7,012,100	7,145,373
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.50%, and loan fee rate of 1.00%, maturing in 2034.	3,884,885	3,985,317
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2034.	1,742,051	1,829,921
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2035.	641,313	65,380
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2035.	<u>637,205</u>	<u>--</u>
Balance forward	\$ <u>22,117,342</u>	\$ <u>20,468,900</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 9 - NOTES PAYABLE (Continued)

	2016	2015
Balance carried forward	\$ 22,117,342	\$ 20,468,900
Notes payable to Department of Health (Continued)		
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2034.	142,217	--
	22,259,559	20,468,900
Less current maturities	(1,301,828)	(1,138,542)
	\$ <u>20,957,731</u>	\$ <u>19,330,358</u>

Annual maturities of the notes payables are as follows:

Fiscal Year Ending June 30,	Amount
2017	\$ 1,301,828
2018	1,305,888
2019	1,310,576
2020	1,315,217
2021	1,320,127
2022 - 2026	6,672,735
2027 - 2031	6,605,259
2032 - 2035	2,427,929
Total	\$ <u>22,259,559</u>

NOTE 10 - EMPLOYEE BENEFIT PLANS

Pensions

Pension Plan Description - Generally, all full-time employees of the State and counties are required to be members of the Employee Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: <http://ers.ehawaii.gov/>.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Benefits Provided - The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement 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 for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members 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 members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

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 5 years of credited service are eligible to retire at age 55.

Police and firefighters' retirement benefits are determined as 2.5% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with ten 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 50% 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 30% of average final compensation.

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 ordinary 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 1 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 ten years of credited service are eligible to retire at age 60. Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 10 years of credited service are eligible to retire at age 60.

Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory plan members hired after June 30, 2012 are generally the same as those for contributory plan 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 5 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.

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 ordinary 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 5 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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

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. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

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 plus a percentage multiplied by 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 - Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal years ended June 30, 2016 and 2015 were 25.00% and 24.00%, respectively, for police and firefighters and 17.00% and 16.50%, respectively, for all other employees. For fiscal years ended June 30, 2016 and 2015, contributions to the pension plan from the Department were \$2,023,843 and \$1,983,818, respectively.

The employer is required to make all contributions for members in the noncontributory plan. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary and police and firefighters are required to contribute 12.2% of their salary. For contributory plan employees hired after June 30, 2012, judges and elected officials are required to contribute 9.8% of their salary and police and firefighters are required to contribute 14.2% of their salary. Hybrid plan members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016 and 2015, the Department reported a liability of \$26,679,011 and \$24,207,754, respectively, for its proportionate share of net pension liability of the County. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on a proportion of the Department's contributions to the pension plan relative to projected contributions of the County. At June 30, 2015 and 2014, the Department's proportion of the County's proportion was 6.9954% and 7.1674% which was a decrease of 0.1720% from its proportion measured at June 30, 2014 and an increase of 0.1531% from its proportion measured as of June 30, 2013.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65% and will continue to decrease to 7.55% in fiscal year 2017 and to 7.50% in fiscal year 2018, and will remain at 7.50% thereafter. There were no changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the fiscal years ended June 30, 2016 and 2015, the Department recognized pension expense of \$2,886,009 and \$2,821,120, respectively. At June 30, 2016 and 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 249,155	\$ (752,676)	\$ 307,836	\$ --
Net difference between projected and actual earnings on pension plan investments	--	(892,574)	--	(2,809,442)
Changes in proportion and difference between Department contributions and proportionate share of contributions	583,007	(361,368)	--	(458,413)
Changes in assumptions	634,899	--	--	--
Department contributions subsequent to the measurement date	<u>2,846,448</u>	<u>--</u>	<u>2,612,602</u>	<u>--</u>
	<u>\$ 4,313,509</u>	<u>\$ (2,006,618)</u>	<u>\$ 2,920,438</u>	<u>\$ (3,267,855)</u>

The \$2,846,448 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ (329,520)
2018	(329,520)
2019	(329,520)
2020	396,439
2021	<u>52,564</u>
Total	\$ <u>(539,557)</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2015</u>	<u>2014</u>
Inflation	3.00%	3.00%
Payroll growth	3.50%	3.50%
Salary increases, including inflation		
Police and fire employees	5.00 to 19.00%	5.00 to 19.00%
General employees	4.00% to 8.00%	4.00% to 8.00%
Teachers	4.50 to 8.50%	4.50 to 8.50%
Investment rate of return, including inflation	7.65%	7.75%

Post-retirement mortality rates are based on Client Specific Tables and the 1994 US Group Annuity Mortality Statistic Tables for police and firefighters. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2015 and 2014 valuation were based on the most recent experience study dated December 20, 2010. Between experience studies, the Board of Trustees of the Employees' Retirement System of the State of Hawaii elected to lower the investment return assumption effective with the June 30, 2015 valuation.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke 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 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 are summarized in the following table:

<u>Asset Class</u>	<u>2015</u>		<u>2014</u>	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.00%	8.50%	30.00%	8.50%
International equity	26.00%	9.00%	26.00%	9.00%
Total fixed-income	20.00%	3.10%	20.00%	3.10%
Real estate	7.00% *	9.20%	7.00%	8.46%
Private equity	7.00% *	11.90%	7.00%	11.45%
Real return	5.00% *	6.70%	5.00%	6.10%
Covered calls	5.00%	7.70%	5.00%	7.65%
	<u>100.00%</u>		<u>100.00%</u>	

*The real estate, private equity, and real return targets will be the percentage actually invested up to 7%, 7%, and 5%, respectively of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Discount Rate - The discount rate used to measure the net pension liability at June 30, 2016 and 2015 was 7.65% and 7.75%, respectively. 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 the County 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 period of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Department's proportionate share of the net pension liability calculated using the discount rate, as well as what the Department'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, 2016		
	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
Department's proportionate share of the net pension liability	\$ <u>30,958,227</u>	\$ <u>26,679,011</u>	\$ <u>17,891,799</u>
	June 30, 2015		
	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Department's proportionate share of the net pension liability	\$ <u>30,682,856</u>	\$ <u>24,207,754</u>	\$ <u>17,732,653</u>

Pension Plan Fiduciary Net Position - The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

There were no significant changes after the report measurement date. 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 <http://www.ers.ehawaii.gov>.

The County of Maui's comprehensive annual financial report contains further disclosures related to the County's proportionate share of the net pension liability and employer pension contributions.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the County, pursuant to HRS Chapter 87A, is a participating employer in an agent multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

For employees hired before July 1, 1996, the County 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.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with fewer than 10 years of service, the County makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the County pays 50% of the base monthly contribution. For employees who retire with at least 15 years but fewer than 25 years of service, the County pays 75% of the base monthly contribution. For those retiring with at least 25 years of service, the County pays the entire base monthly contribution. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 2001, and who retire with fewer than 10 years of service, the County makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the County pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the County pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the County pays the entire base monthly contribution. Retirees can elect family coverage, but must pay the difference.

For active employees, the employee's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the County as a whole and are not separately computed for the individual County departments and agencies such as the Department. The County allocates the ARC to the various departments and agencies based upon a systematic methodology. The Department's contributions paid to the County for the fiscal years ended June 30, 2016 and 2015 was \$1,741,584 and \$1,693,060, respectively, which equaled the Department's allocated ARC for postemployment healthcare and life insurance benefits.

On July 3, 2013, the Governor signed into law Act 268, Session Laws of Hawaii 2013. Act 268 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties.

The EUTF issues an annual financial report that is available to the public. That report may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 96805-2121

Deferred Compensation Plan

The County participates in a deferred compensation plan established by the State of Hawaii in accordance with Internal Revenue Code Section 457. The plan is available to all the County employees, and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. The County has no responsibility for loss due to the investment or failure of investment of funds and assets in the plans, but does have the duty of due care that would be required of an ordinary prudent investor.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 11 - SICK LEAVE

Accrued sick leave aggregated to approximately \$5.3 million and \$5.3 million as of June 30, 2016 and 2015. Sick leave can accumulate 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, a County employee who is vested in the retirement system and retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS.

NOTE 12 - RISK MANAGEMENT

The Department participates in the County's insurance program, which is self-insured for worker's compensation, vehicle, and general liabilities. The County has excess insurance for vehicle and general liability losses over \$500,000. The liability for claims and judgments was estimated based on a combination of case-by-case review and the application of historical experience. Because of the inherent uncertainties in estimating future projected liabilities of claims and judgments, it is at least reasonably possible that the estimates used may change within the near term.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

The financial statements for the fiscal year ended June 30, 2015 contained errors in certain amounts due to incorrect recording of certain pension transactions. As a result, deferred outflows of resources related to pensions were understated by \$628,784 and employee benefit expense was overstated by \$628,784. An adjustment was made to properly state deferred outflows related to pensions and employee benefits for the fiscal year ended June 30, 2015 to correct the error. The adjustment resulted in an increase in change in net position of \$628,784 for the fiscal year ended June 30, 2015.

SUPPLEMENTARY INFORMATION

**Department of Water Supply
County of Maui
SCHEDULE I - SUPPLEMENTAL SCHEDULE OF CAPITAL ASSETS
June 30, 2016**

Description	Balance	Additions	Retirements	Balance	Accumulated	Additions	Retirements	Accumulated
	June 30, 2015	and Transfers		June 30, 2016	Depreciation			Depreciation
Land	\$ 6,931,003	\$ 416,245	\$ --	\$ 7,347,248	\$ --	\$ --	\$ --	\$ --
Source of Supply Structures	1,843,362	--	--	1,843,362	346,480	37,855	--	384,335
Collecting and Impounding Reservoirs	4,251,684	--	--	4,251,684	3,500,183	53,716	--	3,553,899
Wells & Springs	14,712,779	2,250,298	--	16,963,077	3,144,683	409,001	--	3,553,684
Power & Pumping Structures	6,627,631	2,301,203	--	8,928,834	1,327,671	253,283	--	1,580,954
Purification Buildings	34,404,825	12,709	--	34,417,534	27,951,277	1,637,217	--	29,588,494
Distribution Reservoirs	68,508,756	5,368,728	--	73,877,484	25,371,461	1,868,248	--	27,239,709
Office Building	1,672,930	--	--	1,672,930	1,101,943	32,702	--	1,134,645
Field Operation Building	1,072,693	--	--	1,072,693	811,356	19,080	--	830,436
Utility Plant - Unclassified	591,079	--	--	591,079	574,499	4,022	--	578,521
Electric Pumping Equipment	27,846,739	1,779,511	(252,114)	29,374,136	21,013,023	1,485,237	(252,115)	22,246,145
Other Power Pumping Equipment	2,140,118	61,455	--	2,201,573	1,510,415	252,514	--	1,762,929
Purification System - Chlorinators	2,961,469	174,630	--	3,136,099	1,823,211	347,717	--	2,170,928
Purification System - Filter Plants	49,789,338	5,129,021	--	54,918,359	39,457,464	2,156,276	--	41,613,740
Transmission & Distribution Mains	281,037,766	7,987,980	--	289,025,746	111,813,113	6,443,696	--	118,256,809
Service Laterals	3,709,530	267,866	--	3,977,396	2,098,934	128,381	--	2,227,315
Meters	8,731,740	40,085	--	8,771,825	4,297,519	391,605	--	4,689,124
Office Furniture & Equipment	54,155	--	--	54,155	24,643	2,974	--	27,617
Stores Equipment	137,807	99,818	--	237,625	96,646	2,780	--	99,426
Shop Equipment	72,674	--	--	72,674	60,474	1,746	--	62,220
Laboratory Equipment	487,807	--	--	487,807	268,096	20,718	--	288,814
Work Equipment	2,391,101	107,718	(42,060)	2,456,759	1,296,014	104,197	(36,797)	1,363,414
Communication Equipment	1,663,770	24,977	--	1,688,747	972,336	89,353	--	1,061,689
Meter Boxes	291,058	--	--	291,058	289,475	1,056	--	290,531
Hydrants	10,421,010	214,001	--	10,635,011	3,747,488	206,894	--	3,954,382
Standpipes	243,444	--	--	243,444	198,664	5,198	--	203,862
	532,596,268	26,236,245	(294,174)	558,538,339	253,097,068	15,955,466	(288,912)	268,763,622
Office Machines	722,524	37,192	(13,333)	746,383	649,369	23,500	(13,333)	659,536
Transportation Equipment	4,886,649	770,782	(321,339)	5,336,092	4,155,413	275,686	(321,339)	4,109,760
Total Capital Assets (1)	\$ 538,205,441	\$ 27,044,219	\$ (628,846)	\$ 564,620,814	\$ 257,901,850	\$ 16,254,652	\$ (623,584)	\$ 273,532,918
2014 GO Bonds		\$ 724,092						
Revenue Fund		1,055,595						
Construction in Aid		3,714,207						
Construction in Aid - Direct		1,468,017						
Capital Replacement Fund		6,516,576						
State Revolving Fund		6,970,065						
Water System Development Fund		5,903,369						
2007 GO Bond Fund		31,617						
2009 - 2011 GO Bond Fund		660,681						
		\$ 27,044,219						

(1) Excludes construction in progress.

**Department of Water Supply
County of Maui
SCHEDULE II - SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS
June 30, 2016**

<u>County of Maui General Obligation Bonds</u>	<u>Fiscal Year</u>	<u>Coupon Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2016</u>	<u>Payable Within One Year</u>
G.O. Bonds, 2008 Series A (a)								
	2017	3.500	7/1/2008	7/1/2016	Noncallable	\$ 264,281	\$ 264,281	\$ 264,281
	2018	3.500	7/1/2008	7/1/2017	Noncallable	<u>272,832</u>	<u>272,832</u>	<u>--</u>
Total 2008 Series A Issue						<u>537,113</u>	<u>537,113</u>	<u>264,281</u>
G.O. Refunding Bonds, 2010 Series B (b)								
	2017	4.000	12/1/2010	6/1/2017	Noncallable	\$ 367,888	\$ 367,888	\$ 367,888
	2018	5.000	12/1/2010	6/1/2018	Noncallable	382,667	382,667	--
	2019	4.000	12/1/2010	6/1/2019	Noncallable	401,441	401,441	--
	2020	4.000	12/1/2010	6/1/2020	Noncallable	417,419	417,419	--
	2021	4.000	12/1/2010	6/1/2021	6/1/2020	<u>434,195</u>	<u>434,195</u>	<u>--</u>
Total 2010 Series B Issue						<u>2,003,610</u>	<u>2,003,610</u>	<u>367,888</u>
G.O. Refunding Bonds, 2012 Series B (c)								
	2017	4.000	11/1/2012	6/1/2017	Noncallable	\$ 161,556	\$ 161,556	\$ 161,556
	2018	5.000	11/1/2012	6/1/2018	Noncallable	169,295	169,295	--
	2019	5.000	11/1/2012	6/1/2019	Noncallable	178,002	178,002	--
	2020	5.000	11/1/2012	6/1/2020	Noncallable	186,708	186,708	--
	2021	5.000	11/1/2012	6/1/2021	Noncallable	196,382	196,382	--
	2022	5.000	11/1/2012	6/1/2022	Noncallable	206,056	206,056	--
	2023	4.000	11/1/2012	6/1/2023	Noncallable	216,214	216,214	--
	2024	2.125	11/1/2012	6/1/2024	6/1/2023	224,921	224,921	--
	2025	3.000	11/1/2012	6/1/2025	6/1/2023	229,758	229,758	--
	2026	3.000	11/1/2012	6/1/2026	6/1/2023	236,529	236,529	--
	2027	3.000	11/1/2012	6/1/2027	6/1/2023	243,785	243,785	--
	2028	3.000	11/1/2012	6/1/2028	6/1/2023	251,040	251,040	--
	2029	3.000	11/1/2012	6/1/2029	6/1/2023	258,779	258,779	--
	2030	3.000	11/1/2012	6/1/2030	6/1/2023	266,519	266,519	--
	2031	3.000	11/1/2012	6/1/2031	6/1/2023	274,258	274,258	--
	2032	3.000	11/1/2012	6/1/2032	6/1/2023	<u>282,481</u>	<u>282,481</u>	<u>--</u>
Total 2012 Series B Issue						<u>3,582,283</u>	<u>3,582,283</u>	<u>161,556</u>

**Department of Water Supply
County of Maui
SCHEDULE II - SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS (Continued)
June 30, 2016**

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2016	Payable Within One Year
G.O. Refunding Bonds, 2012 Series C (d)								
	2017	4.000	11/1/2012	6/1/2017	Noncallable	\$ 810,000	\$ 810,000	\$ 810,000
	2018	5.000	11/1/2012	6/1/2018	Noncallable	850,000	850,000	--
	2019	5.000	11/1/2012	6/1/2019	Noncallable	895,000	895,000	--
	2020	5.000	11/1/2012	6/1/2020	Noncallable	940,000	940,000	--
	2021	5.000	11/1/2012	6/1/2021	Noncallable	985,000	985,000	--
	2022	5.000	11/1/2012	6/1/2022	Noncallable	1,035,000	1,035,000	--
	2023	4.000	11/1/2012	6/1/2023	Noncallable	1,090,000	1,090,000	--
Total 2012 Series C Issue						<u>6,605,000</u>	<u>6,605,000</u>	<u>810,000</u>
45 G.O. Refunding Bonds, 2014 Series C (e)								
	2017	5.000	12/1/2014	6/1/2017	Noncallable	\$ 235,000	\$ 235,000	\$ 235,000
	2018	5.000	12/1/2014	6/1/2018	Noncallable	250,000	250,000	--
	2019	5.000	12/1/2014	6/1/2019	Noncallable	260,000	260,000	--
	2020	5.000	12/1/2014	6/1/2020	Noncallable	275,000	275,000	--
	2021	5.000	12/1/2014	6/1/2021	Noncallable	290,000	290,000	--
	2022	5.000	12/1/2014	6/1/2022	Noncallable	305,000	305,000	--
	2023	5.000	12/1/2014	6/1/2023	Noncallable	320,000	320,000	--
	2024	5.000	12/1/2014	6/1/2024	Noncallable	335,000	335,000	--
	2025	3.000	12/1/2014	6/1/2025	6/1/2024	350,000	350,000	--
	2026	3.000	12/1/2014	6/1/2026	6/1/2024	360,000	360,000	--
	2027	4.000	12/1/2014	6/1/2027	6/1/2024	370,000	370,000	--
	2028	3.000	12/1/2014	6/1/2028	6/1/2024	385,000	385,000	--
	2029	3.000	12/1/2014	6/1/2029	6/1/2024	400,000	400,000	--
	2030	3.000	12/1/2014	6/1/2030	6/1/2024	410,000	410,000	--
	2031	3.125	12/1/2014	6/1/2031	6/1/2024	420,000	420,000	--
	2032	3.250	12/1/2014	6/1/2032	6/1/2024	435,000	435,000	--
	2033	3.250	12/1/2014	6/1/2033	6/1/2024	450,000	450,000	--
	2034	3.250	12/1/2014	6/1/2034	6/1/2024	465,000	465,000	--
Total 2014 Series C Issue						<u>6,315,000</u>	<u>6,315,000</u>	<u>235,000</u>

**Department of Water Supply
County of Maui
SCHEDULE II - SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS (Continued)
June 30, 2016**

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2016	Payable Within One Year
G.O. Refunding Bonds, 2015 Series B (f)								
	2017	5.000	3/1/2016	9/1/2017	Noncallable	\$ 513,758	\$ 513,758	\$ 513,758
	2018	5.000	3/1/2016	9/1/2018	Noncallable	521,937	521,937	--
	2019	5.000	3/1/2016	9/1/2019	Noncallable	547,960	547,960	--
	2020	5.000	3/1/2016	9/1/2020	Noncallable	575,469	575,469	--
Total 2015 Series B Issue						<u>2,159,124</u>	<u>2,159,124</u>	<u>513,758</u>
G.O. Refunding Bonds, 2015 Series D (g)								
	2017	5.000	3/1/2016	9/1/2017	Noncallable	\$ --	\$ --	\$ --
	2018	5.000	3/1/2016	9/1/2018	Noncallable	--	--	--
	2019	5.000	3/1/2016	9/1/2019	Noncallable	296,496	296,496	--
	2020	5.000	3/1/2016	9/1/2020	Noncallable	311,112	311,112	--
	2021	5.000	3/1/2016	9/1/2021	Noncallable	327,120	327,120	--
	2022	5.000	3/1/2016	9/1/2022	Noncallable	343,128	343,128	--
	2023	5.000	3/1/2016	9/1/2023	Noncallable	360,528	360,528	--
	2024	5.000	3/1/2016	9/1/2024	Noncallable	378,624	378,624	--
	2025	5.000	3/1/2016	9/1/2025	Noncallable	397,416	397,416	--
	2026	3.000	3/1/2016	9/1/2026	9/1/2025	416,904	416,904	--
	2027	3.000	3/1/2016	9/1/2027	9/1/2025	437,784	437,784	--
Total 2015 Series D Issue						<u>3,269,112</u>	<u>3,269,112</u>	<u>--</u>
Total General Obligation Bonds						<u>\$ 24,471,242</u>	<u>\$ 24,471,242</u>	<u>\$ 2,352,483</u>

**Department of Water Supply
County of Maui
SCHEDULE II - SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS (Continued)
June 30, 2016**

NOTES:

- (a) The General Obligation Bonds, 2008, Series A, maturing on or before July 1, 2017 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on July 1, 2018, prior to their stated maturity, on or after July 1, 2017, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.
- (b) The General Obligation Refunding Bonds, 2010, Series B, maturing on or before June 1, 2020 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on June 1, 2021, prior to their stated maturity, on or after June 1, 2020, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.
- (c) The General Obligation Refunding Bonds, 2012, Series B, maturing on or before June 1, 2023 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on June 1, 2024, prior to their stated maturity, on or after June 1, 2023, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.
- (d) The General Obligation Refunding Bonds, 2012, Series C, maturing before June 1, 2023 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates.
- (e) The General Obligation Refunding Bonds, 2014, Series C, maturing on or before June 1, 2024 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on June 1, 2025, prior to their stated maturity, on or after June 1, 2024, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.
- (f) The General Obligation Refunding Bonds, 2015, Series B, maturing before September 1, 2025 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates.
- (g) The General Obligation Refunding Bonds, 2015, Series D, maturing on or before September 1, 2025 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on September 1, 2026, prior to their stated maturity, on or after September 1, 2025, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.