

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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS**

Fiscal Years Ended June 30, 2021 and 2020



**DEPARTMENT OF WATER SUPPLY
COUNTY OF MAUI**

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Water Supply
County of Maui

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, State of Hawaii, as of and for the fiscal years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, State of Hawaii 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, State of Hawaii as of June 30, 2021 and 2020, the changes in its financial position, or its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, the schedules of proportionate share of the net pension liability, pension contributions, changes in the net OPEB liability and related ratios and OPEB contributions information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Department's basic financial statements. The supplemental schedules of capital assets for the fiscal year ended June 30, 2021 and of long-term debt - general obligation bonds as of June 30, 2021 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of capital assets and of long-term debt - general obligation bonds are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of capital assets and of long-term debt - general obligation bonds are 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 January 31, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
January 31, 2022

**Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION
June 30, 2021 and 2020**

	2021	2020
CURRENT ASSETS		
Equity in pooled cash and investments held in County Treasury	\$ 80,536,039	\$ 75,990,422
Customer receivables		
Billed	4,800,448	3,919,842
Less: allowance for doubtful accounts	<u>(119,633)</u>	<u>(90,686)</u>
	4,680,815	3,829,156
Unbilled	<u>3,666,330</u>	<u>3,182,856</u>
Total customer receivables	<u>8,347,145</u>	<u>7,012,012</u>
Materials and supplies	1,824,267	1,577,959
Other current assets	<u>7,747</u>	<u>139,171</u>
Total current unrestricted assets	<u>90,715,198</u>	<u>84,719,564</u>
RESTRICTED ASSETS		
Equity in pooled cash and investments held in County Treasury	<u>37,513,073</u>	<u>36,188,231</u>
Total current assets	<u>128,228,271</u>	<u>120,907,795</u>
CAPITAL ASSETS		
Utility plant in service	672,495,761	663,654,966
Less accumulated depreciation	<u>(353,063,839)</u>	<u>(336,922,227)</u>
	319,431,922	326,732,739
Land	8,007,145	8,007,145
Construction work in progress	<u>22,393,522</u>	<u>21,923,861</u>
Total capital assets	<u>349,832,589</u>	<u>356,663,745</u>
TOTAL ASSETS	<u>478,060,860</u>	<u>477,571,540</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	8,417,806	8,035,456
Deferred outflows of resources related to OPEB	5,007,564	4,788,398
Unamortized loss on advanced refunding	<u>84,134</u>	<u>100,418</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>13,509,504</u>	<u>12,924,272</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 491,570,364</u>	<u>\$ 490,495,812</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION (Continued)
June 30, 2021 and 2020**

	2021	2020
CURRENT LIABILITIES		
Payable from unrestricted current assets		
Bonds payable, current portion	\$ 2,168,747	\$ 2,472,697
Notes payable, current portion	2,611,724	2,550,020
Accounts payable	3,336,115	3,226,657
Accrued vacation, current portion	954,189	934,650
Accrued compensatory time off	153,743	139,680
Construction contracts payable, including retainages	2,148,209	904,125
Claims and judgments	392,776	322,171
Accrued interest payable	344,978	364,418
Customer advances for utility construction	953,322	308,282
	13,063,803	11,222,700
Payable from restricted assets		
Construction contracts payable, including retainages	154,038	404,567
Customer deposits	604,837	721,055
Refundable advances	1,000,000	1,000,000
	1,758,875	2,125,622
Total current liabilities	14,822,678	13,348,322
NON-CURRENT LIABILITIES		
Bonds payable, non-current portion	15,489,761	17,640,706
Notes payable, non-current portion	41,166,246	43,024,331
Net pension liability	46,897,310	43,112,852
Net OPEB liability	21,991,924	24,007,403
Accrued vacation, non-current portion	1,224,830	981,141
Total non-current liabilities	126,770,071	128,766,433
TOTAL LIABILITIES	141,592,749	142,114,755
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	257,819	460,319
Deferred inflows of resources related to OPEB	2,290,459	378,657
TOTAL DEFERRED INFLOWS OF RESOURCES	2,548,278	838,976
NET POSITION		
Net investment in capital assets	290,913,751	293,509,050
Restricted	34,547,310	33,108,459
Unrestricted	21,968,276	20,924,572
TOTAL NET POSITION	347,429,337	347,542,081
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 491,570,364	\$ 490,495,812

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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water sales	\$ 66,299,928	\$ 67,078,751
Other revenues	<u>865,986</u>	<u>1,106,747</u>
Total operating revenues	<u>67,165,914</u>	<u>68,185,498</u>
OPERATING EXPENSES		
Administrative and general	24,296,920	18,068,336
Depreciation and amortization	16,907,642	18,464,719
Power and pumping	11,728,780	12,584,077
Transmission and distribution	8,499,638	9,585,103
Purification	6,765,031	6,793,043
Customers' accounting and collection	1,624,439	1,880,398
Source of supply	<u>885,594</u>	<u>1,675,982</u>
Total operating expenses	<u>70,708,044</u>	<u>69,051,658</u>
Operating loss	<u>(3,542,130)</u>	<u>(866,160)</u>
NONOPERATING INCOME (EXPENSES)		
Interest and investment income	105,308	3,262,190
Interest expense, net of amortization of bond premiums of of \$334,957 in 2021 and \$354,951 in 2020	(911,847)	(1,106,083)
Other expense	<u>(113,756)</u>	<u>--</u>
Total nonoperating (loss) income	<u>(920,295)</u>	<u>2,156,107</u>
(Loss) income before capital contributions	(4,462,425)	1,289,947
Capital contributions	<u>4,349,681</u>	<u>6,244,966</u>
Change in net position	(112,744)	7,534,913
NET POSITION		
Beginning of fiscal year	<u>347,542,081</u>	<u>340,007,168</u>
End of fiscal year	\$ <u>347,429,337</u>	\$ <u>347,542,081</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2021 and 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	\$ 65,940,247	\$ 68,655,178
Payments to suppliers for goods and services	(28,740,504)	(30,932,777)
Payments to employees for services	(20,956,574)	(19,521,243)
Utility construction advances (refunds)	<u>528,822</u>	<u>(34,033)</u>
Net cash provided by operating activities	<u>16,771,991</u>	<u>18,167,125</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income received from investments	<u>105,308</u>	<u>3,262,190</u>
Net cash provided by investing activities	<u>105,308</u>	<u>3,262,190</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for acquisition of construction of capital assets	(8,004,988)	(13,058,334)
Principal paid on bonds and notes payable	(5,060,996)	(5,313,738)
Proceeds from bonds and notes payable	1,144,677	2,539,399
Cash received from capital contributions and other	2,164,427	2,288,523
Interest paid on bonds and notes payable	<u>(1,249,960)</u>	<u>(1,462,546)</u>
Net cash used in capital and related financing activities	<u>(11,006,840)</u>	<u>(15,006,696)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,870,459	6,422,619
CASH AND CASH EQUIVALENTS		
Beginning of fiscal year	<u>112,178,653</u>	<u>105,756,034</u>
End of fiscal year	\$ <u><u>118,049,112</u></u>	\$ <u><u>112,178,653</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Unrestricted	\$ 80,536,039	\$ 75,990,422
Restricted	<u>37,513,073</u>	<u>36,188,231</u>
	\$ <u><u>118,049,112</u></u>	\$ <u><u>112,178,653</u></u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2021 and 2020**

	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (3,542,130)	\$ (866,160)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	16,907,642	18,464,719
Provision for doubtful accounts	94,931	221,087
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Customer receivables	(1,430,064)	184,994
Materials and supplies	(246,308)	95,693
Other current assets	131,424	74,412
Deferred outflows of resources related to pensions	(382,350)	1,269,903
Deferred outflows of resources related to OPEB	(219,166)	(1,336,546)
Accounts and construction contracts payable	1,312,186	(2,201,822)
Claims and judgments	70,605	(190,769)
Other liabilities and deposits	596,940	827,713
Net pension liability	3,784,458	2,072,495
Net OPEB liability	(2,015,479)	103,709
Deferred inflows of resources related to pensions	(202,500)	(210,848)
Deferred inflows of resources related to OPEB	1,911,802	(341,455)
Net cash provided by operating activities	\$ 16,771,991	\$ 18,167,125
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	\$ 2,071,498	\$ 3,956,443
Amortization of deferred loss on refunding	\$ 16,284	\$ 16,284
Amortization of bond premium	\$ 334,957	\$ 354,951

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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, as amended, provides the following:
- The Department is a regular County of Maui agency subject to the Mayor's executive management and Maui County Council's (Council) 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 position and activities of the Department, and do not purport to, and do not, present the financial position of the County, the changes in its financial position, or its cash flows in accordance with accounting principles generally accepted in the United States of America (GAAP).
- (3) **Measurement Focus and Basis of Accounting** - The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
- (4) **Use of Estimates** - The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances of receivables, accrued workers' compensation, and pension and post-retirement benefits. Actual results could differ from those estimates.
- (5) **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, 2021 and 2020**

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

- (6) **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 negotiable time certificates of deposits and repurchase agreements are carried at cost, which approximates fair value. Investments in U.S. Treasury, U.S. government agencies obligations, municipal securities, and commercial paper are reported at fair value.

- (7) **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.
- (8) **Materials and Supplies** - Materials and supplies are stated at weighted average cost (which approximates the first-in, first-out method). The cost of materials and supplies are recorded as expenses when consumed rather than when purchased.
- (9) **Restricted Assets** - Funds received by the Department, which are refundable or restricted as to use, are recorded as restricted assets.
- (10) **Capital Assets** - Utility plant in service is stated at cost and include contributions by governmental agencies, private developers, and customers at their cost or estimated cost. Capital assets include 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.

Depreciation 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:

Buildings and systems	10 - 50 years
Machinery and equipment	5 - 50 years
Infrastructure	5 - 50 years

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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

- (11) ***Debt Premium and Discounts*** - Premium and discounts arising from the issuance of debt securities are amortized over the life of the bonds. Amortization of debt premiums is recorded as a reduction of interest expense.
- (12) ***Deferred Amounts on Advance Refunding*** - 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. Employees earn compensatory time off at the rate of one and a half hours for each hour of overtime worked. Unused compensatory time off is 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) ***Net Position*** - Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The three components of net position 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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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

- *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."

(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.

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) **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. The amounts received are recorded as capital contributions in the accompanying statements of revenues, expenses, and changes in net position.

(18) **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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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

- (19) **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, employer and employee contributions are recognized in the period in which the contributions are legally due and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.
- (20) **Postemployment Benefits Other Than Pensions (OPEB)** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from EUTF's fiduciary net position have been determined on the same basis as they are reported by EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.
- (21) **New Accounting Pronouncements** - The Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management has not yet determined the effect this Statement will have on the Department's financial statements.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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

The GASB issued Statement No. 92, *Omnibus 2020*. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. Management has not yet determined the effect this Statement will have on the Department's financial statements.

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

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement extends the effective dates of the following Statements that may have an effect on the Department's financial statements as follows:

- Statement No. 87; effective date postponed 18 months for reporting periods beginning after June 15, 2021
- Statement No. 90; effective date postponed one year for reporting periods beginning after December 15, 2019
- Statement No. 91; effective date postponed one year for reporting periods beginning after December 15, 2021
- Statement No. 92, paragraphs 6 and 7; effective date postponed one year for fiscal years beginning after June 15, 2021
- Statement No. 92, paragraphs 8, 9 and 12; effective date postponed one year for reporting periods beginning after June 15, 2021
- Statement No. 92, paragraph 10; effective date postponed one year for government acquisitions occurring in reporting periods beginning after June 15, 2021

The requirements of this Statement were effective in May 2020.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on the 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, 2021 and 2020, 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 \$118,049,112 and \$112,178,653, respectively.

County's Investment Policy

The County's investment policy conforms with the State of Hawaii statutes (Chapter 46, Section 50), which authorize the County to invest in obligations of the U.S. Treasury and U.S. government agencies, municipal securities, auction rate securities collateralized by student loans, bank repurchase agreements, commercial paper, banker's acceptances, and money market funds.

Specific requirements under the County's investment policy are as follows:

- With the exception of U.S. Treasury securities and bank certificates of deposit fully insured by the Federal Deposit Insurance Corporation (FDIC) not to exceed \$250,000 per banking institution, no more than 30% of the County's investment portfolio will be invested in a single type of security, a single issuer, or financial institution.
- Investment maturities are not to exceed five years.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

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, and custodial credit 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 follows State of Hawaii statutes, which limits investment maturities to five years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Quality 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 municipal securities, U.S. Treasury securities, negotiable time certificates of deposits, U.S. government agency obligations, repurchase agreements, commercial paper, bankers' acceptances, money market funds, and auction rate securities collateralized by student loans maintaining Triple-A rating. The bond ratings for the County's investments in U.S. agency obligations (government sponsored enterprises) at June 30, 2021 and 2020 were as follows:

	2021	2020
AA+	\$ 200,409,994	\$ 204,029,226
AA	88,067,200	440,368
A - 1+	--	33,997,121
A - 1	--	11,995,722
Not rated	37,398,464	23,511,257
	\$ 325,875,658	\$ 273,973,694

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 and with the exception of U.S. Treasury securities, no more than 30% of the investment portfolio can be invested in a single type of security or financial institution.

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, 2021 and 2020, substantially all of the County's negotiable time certificates of deposits and cash deposits were insured and collateralized.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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 annual comprehensive financial report.

The Department's share of the County's cash and investment pool, as summarized in the tables below was approximately 20.0% and 21.1% at June 30, 2021 and 2020, respectively.

As of June 30, 2021, the County and fiduciary fund'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	0.64 - 1.84	\$ --	\$ 1,000,000	\$ 2,000,000	\$ 24,000,000	\$ 380,140	\$ 27,380,140
Federal Home Loan Bank Bank Notes	0.11 - 3.09	15,000,000	1,000,000	5,000,000	36,500,000	1,219,110	58,719,110
Federal Farm Credit Bank Notes	1.55 - 3.21	--	10,000,000	9,000,000	61,238,000	3,221,125	83,459,125
Federal Agricultural Mortgage Corporation Notes	0.88 - 2.55	--	--	3,000,000	21,500,000	437,390	24,937,390
Federal Home Loan Mortgage Corporation Notes	0.28 - 1.89	--	--	--	30,000,000	425,140	30,425,140
U.S. Treasury Strips	1.94	--	--	2,000,000	--	(1,260)	1,998,740
U.S. Treasury Notes	0.06 - 3.05	--	--	27,000,000	59,000,000	68,460	86,068,460
Municipal Securities	0.70 - 3.26	1,755,000	3,205,000	285,000	7,350,000	292,553	12,887,553
Negotiable certificates of deposit	0.10 - 3.55	<u>1,000,000</u>	<u>500,000</u>	<u>2,499,000</u>	<u>5,500,000</u>	<u>260,626</u>	<u>9,759,626</u>
Total investments		\$ <u>17,755,000</u>	\$ <u>15,705,000</u>	\$ <u>50,784,000</u>	\$ <u>245,088,000</u>	\$ <u>6,303,284</u>	335,635,284
						Cash on hand and deposits	<u>253,468,181</u>
						Total equity in pooled cash and investments	\$ <u>589,103,465</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 2 - CASH AND INVESTMENTS (Continued)

As of June 30, 2020, the County and fiduciary fund'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	1.21 - 1.84	\$ --	\$ 2,000,000	\$ --	\$ 17,000,000	\$ 806,280	\$ 19,806,280
Federal Home Loan Bank Bank Notes	1.40 - 3.30	--	3,000,000	--	37,500,000	1,913,465	42,413,465
Federal Farm Credit Bank Notes	1.88 - 3.05	--	4,000,000	1,985,000	80,238,000	5,011,221	91,234,221
Federal Agricultural Mortgage Corporation Notes	2.40 - 2.55	--	--	--	14,500,000	727,325	15,227,325
Federal Home Loan Mortgage Corporation Notes	1.08 - 2.55	--	--	--	15,000,000	879,510	15,879,510
Tennessee Valley Authority Notes	2.33 - 2.72	--	--	5,000,000	--	113,300	5,113,300
U.S. Treasury Strips	1.94	--	--	--	2,000,000	(6,720)	1,993,280
U.S. Treasury Notes	1.78 - 3.04	--	7,000,000	--	13,000,000	461,920	20,461,920
Commercial Paper	0.18 - 0.92	14,000,000	32,000,000	--	--	(7,156)	45,992,844
Municipal Securities	1.25 - 3.26	600,000	1,860,000	380,000	12,595,000	416,549	15,851,549
Negotiable certificates of deposit	0.10 - 3.50	<u>2,250,000</u>	<u>7,980,000</u>	<u>11,250,000</u>	<u>10,999,000</u>	<u>626,735</u>	<u>33,105,735</u>
Total investments		\$ <u>16,850,000</u>	\$ <u>57,840,000</u>	\$ <u>18,615,000</u>	\$ <u>202,832,000</u>	\$ <u>10,942,429</u>	307,079,429
						Cash on hand and deposits	<u>225,257,519</u>
						Total equity in pooled cash and investments	\$ <u>532,336,948</u>

Unrestricted equity in pooled cash and investments held in County Treasury at June 30, 2021 and 2020 include funds for the following purposes:

	<u>2021</u>	<u>2020</u>
Board-designated		
Capital improvements	\$ 23,957,079	\$ 26,111,563
Debt service	<u>2,157,556</u>	<u>2,116,350</u>
Total board-designated	26,114,635	28,227,913
Undesignated	<u>54,421,404</u>	<u>47,762,509</u>
Total	\$ <u>80,536,039</u>	\$ <u>75,990,422</u>

At June 30, 2021 and 2020, construction contract payables, including retentions, to be paid with board-designated funds were approximately \$2,100,000 and \$900,000, respectively. Construction contract commitments as of June 30, 2021 and 2020, to be paid with board-designated funds, aggregated approximately \$11.1 million and \$7.6 million, respectively.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Restricted equity in pooled cash and investments held in County Treasury consisted of the following at June 30, 2021 and 2020:

	2021	2020
Water system development fee	\$ 21,975,790	\$ 20,384,500
State funds	12,032,734	12,183,829
Bond funds	2,433,505	2,432,640
Customer deposits	604,837	721,055
Special assessment fund for storage	273,829	273,829
Source development fund assessments	192,378	192,378
Total	\$ 37,513,073	\$ 36,188,231

At June 30, 2021 and 2020 construction voucher and contract payables, including retentions, to be paid with restricted assets were approximately \$154,000 and \$405,000, respectively. Construction contract commitments as of June 30, 2021 and 2020, to be paid with restricted assets, aggregated approximately \$8.7 million and \$8.6 million, respectively.

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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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

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

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

U.S. government agency obligations, municipal securities, and commercial paper: Valued using quoted prices for identical or similar assets in markets that are not active.

Negotiable certificates of deposit: Valued using quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2021 and 2020:

	Assets at Fair Value at June 30, 2021			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 88,067,200	\$ 88,067,200	\$ --	\$ --
U. S. government agency obligations	224,920,905	--	224,920,905	--
Municipal securities	12,887,553	--	12,887,553	--
Negotiable certificates of deposit	<u>9,759,626</u>	<u>--</u>	<u>9,759,626</u>	<u>--</u>
	<u>\$ 335,635,284</u>	<u>\$ 88,067,200</u>	<u>\$ 247,568,084</u>	<u>\$ --</u>

	Assets at Fair Value at June 30, 2020			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 22,455,200	\$ 22,455,200	\$ --	\$ --
U. S. government agency obligations	189,674,101	--	189,674,101	--
Municipal securities	15,851,549	--	15,851,549	--
Commercial Paper	45,992,844	--	45,992,844	--
Negotiable certificates of deposit	<u>33,105,735</u>	<u>--</u>	<u>33,105,735</u>	<u>--</u>
	<u>\$ 307,079,429</u>	<u>\$ 22,455,200</u>	<u>\$ 284,624,229</u>	<u>\$ --</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 4 - RESTRICTED NET POSITION

At June 30, 2021 and 2020, restricted net position consisted of the following:

	<u>2021</u>	<u>2020</u>
Water system development fee	\$ 21,975,790	\$ 20,384,500
Special assessment fund for storage	273,829	273,829
Source development fund assessments	192,378	192,378
Other restricted funds	<u>12,105,313</u>	<u>12,257,752</u>
Total	\$ <u>34,547,310</u>	\$ <u>33,108,459</u>

NOTE 5 - CAPITAL CONTRIBUTIONS

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

	<u>2021</u>	<u>2020</u>
Dedication of infrastructure assets	\$ 2,071,498	\$ 3,956,443
Source development fund assessments	2,145,095	2,089,242
Other	<u>133,088</u>	<u>199,281</u>
Total	\$ <u>4,349,681</u>	\$ <u>6,244,966</u>

NOTE 6 - CAPITAL ASSETS

Capital assets activity during the fiscal year ended June 30, 2021 was as follows:

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Reductions/ Retirements</u>	<u>Balance June 30, 2021</u>
Non-depreciable assets				
Land	\$ 8,007,145	\$ --	\$ --	\$ 8,007,145
Construction in progress	<u>21,923,861</u>	<u>4,732,511</u>	<u>(4,262,850)</u>	<u>22,393,522</u>
	<u>29,931,006</u>	<u>4,732,511</u>	<u>(4,262,850)</u>	<u>30,400,667</u>
Depreciable assets				
Buildings and systems	191,724,520	2,208,993	--	193,933,513
Machinery and equipment	459,471,122	7,281,150	(753,784)	465,998,488
Infrastructure	<u>12,459,324</u>	<u>116,682</u>	<u>(12,246)</u>	<u>12,563,760</u>
	<u>663,654,966</u>	<u>9,606,825</u>	<u>(766,030)</u>	<u>672,495,761</u>
Accumulated depreciation				
Buildings and systems	85,540,676	4,280,794	--	89,821,470
Machinery and equipment	246,110,107	12,380,891	(753,784)	257,737,214
Infrastructure	<u>5,271,444</u>	<u>245,957</u>	<u>(12,246)</u>	<u>5,505,155</u>
	<u>336,922,227</u>	<u>16,907,642</u>	<u>(766,030)</u>	<u>353,063,839</u>
Total Capital Assets	\$ <u>356,663,745</u>	\$ <u>(2,568,306)</u>	\$ <u>(4,262,850)</u>	\$ <u>349,832,589</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 6 - CAPITAL ASSETS (Continued)

Capital assets activity during the fiscal year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Additions	Reductions/ Retirements	Balance June 30, 2020
Non-depreciable assets				
Land	\$ 7,905,059	\$ 102,086	\$ --	\$ 8,007,145
Construction in progress	<u>34,418,791</u>	<u>12,457,637</u>	<u>(24,952,567)</u>	<u>21,923,861</u>
	<u>42,323,850</u>	<u>12,559,723</u>	<u>(24,952,567)</u>	<u>29,931,006</u>
Depreciable assets				
Buildings and systems	177,554,900	14,169,620	--	191,724,520
Machinery and equipment	445,000,625	14,705,899	(235,402)	459,471,122
Infrastructure	<u>11,927,222</u>	<u>532,102</u>	<u>--</u>	<u>12,459,324</u>
	<u>634,482,747</u>	<u>29,407,621</u>	<u>(235,402)</u>	<u>663,654,966</u>
Accumulated depreciation				
Buildings and systems	79,701,373	5,839,303	--	85,540,676
Machinery and equipment	233,955,741	12,389,768	(235,402)	246,110,107
Infrastructure	<u>5,035,796</u>	<u>235,648</u>	<u>--</u>	<u>5,271,444</u>
	<u>318,692,910</u>	<u>18,464,719</u>	<u>(235,402)</u>	<u>336,922,227</u>
Total Capital Assets	<u>\$ 358,113,687</u>	<u>\$ 23,502,625</u>	<u>\$ (24,952,567)</u>	<u>\$ 356,663,745</u>

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities of the Department for the fiscal year ended June 30, 2021 are as follows:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Due Within One Year
Bonds payable	\$ 20,113,403	\$ 352,759	\$ 2,807,654	\$ 17,658,508	\$ 2,168,747
Notes payable from direct borrowings	45,574,351	791,918	2,588,299	43,777,970	2,611,724
Accrued vacation payable	1,915,791	1,102,149	838,921	2,179,019	954,189
Accrued compensatory time off	139,680	126,955	112,892	153,743	153,743
Claims and judgments	<u>322,171</u>	<u>370,065</u>	<u>299,460</u>	<u>392,776</u>	<u>392,776</u>
Total	<u>\$ 68,065,396</u>	<u>\$ 2,743,846</u>	<u>\$ 6,647,226</u>	<u>\$ 64,162,016</u>	<u>\$ 6,281,179</u>

A summary of changes in long-term liabilities of the Department for the fiscal year ended June 30, 2020 are as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Bonds payable	\$ 23,419,062	\$ --	\$ 3,305,659	\$ 20,113,403	\$ 2,472,697
Notes payable from direct borrowings	45,397,982	2,539,399	2,363,030	45,574,351	2,550,020
Accrued vacation payable	1,753,565	1,017,732	855,506	1,915,791	934,650
Accrued compensatory time off	114,265	117,133	91,718	139,680	139,680
Claims and judgments	<u>512,940</u>	<u>127,814</u>	<u>318,583</u>	<u>322,171</u>	<u>322,171</u>
Total	<u>\$ 71,197,814</u>	<u>\$ 3,802,078</u>	<u>\$ 6,934,496</u>	<u>\$ 68,065,396</u>	<u>\$ 6,419,218</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 8 - BONDS PAYABLE

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

	2021	2020
General Obligation Refunding Bonds, 2010 Series B, due in annual installments through 2021, interest payable semi-annually from 4.0% to 5.0%. These bonds were refunded by 2020 Series B bonds.	\$ --	\$ 434,195
General Obligation Refunding Bonds, 2012 Series B, due in annual installments through 2032, interest payable semi-annually from 2.1% to 5.0%.	2,690,340	2,886,722
General Obligation Refunding Bonds, 2012 Series C, due in annual installments through 2023, interest payable semi-annually from 4.0% to 5.0%.	2,125,000	3,110,000
General Obligation Refunding Bonds, 2014 Series C, due in annual installments through 2034, interest payable semi-annually from 3.0% to 5.0%.	5,005,000	5,295,000
General Obligation Refunding Bonds, 2015 Series D, due in annual installments through 2027, interest payable semi-annually from 3.0% to 5.0%.	2,334,384	2,661,504
General Obligation Refunding Bonds, 2018 Series C, due in annual installments through 2032, interest payable semi-annually from 3.0% to 5.0%.	3,555,000	3,795,000
General Obligation Refunding Bonds, 2020 Series B, due in annual installments through 2030, interest payable semi-annually from 2.0% to 5.0%	352,759	--
Less current portion	16,062,483 <u>(2,168,747)</u>	18,182,421 <u>(2,472,697)</u>
Unamortized premium	13,893,736 <u>1,596,025</u>	15,709,724 <u>1,930,982</u>
Noncurrent portion	\$ <u>15,489,761</u>	\$ <u>17,640,706</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 8 - BONDS PAYABLE (Continued)

At June 30, 2021, 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>
2022	\$ 2,168,747	\$ 641,799	\$ 2,810,546
2023	2,283,303	532,551	2,815,854
2024	1,247,502	430,746	1,678,248
2025	1,303,528	373,992	1,677,520
2026	1,357,185	319,549	1,676,734
2027 - 2031	5,664,737	909,791	6,574,528
2032 - 2034	<u>2,037,481</u>	<u>105,300</u>	<u>2,142,781</u>
Total	\$ <u>16,062,483</u>	\$ <u>3,313,728</u>	\$ <u>19,376,211</u>

The County issues general obligation bonds for the construction of major capital facilities. The County's general obligation bonds are direct obligations of the County for which its full faith and credit are pledged. A portion of the County's general obligation bonds are designated as reimbursable bonds to be repaid from the net revenues of the Department.

NOTE 9 - NOTES PAYABLE

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

	<u>2021</u>	<u>2020</u>
Notes payable to 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 1.00%, and loan fee rate of 1.00%, maturing in 2032.	140,528	152,563
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>1,355,675</u>	<u>1,469,925</u>
Balance forward	\$ 1,496,203	\$ 1,622,488

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 9 - NOTES PAYABLE (Continued)

	2021	2020
Notes payable to State of Hawaii, Department of Health		
Balance carried forward	\$ 1,496,203	\$ 1,622,488
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.	540,324	582,478
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.	4,949,717	5,362,194
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.	2,809,321	3,026,609
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.	1,383,644	1,482,861
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.	505,133	538,586
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.	550,513	586,985
Balance forward	\$ 12,234,855	\$ 13,202,201

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 9 - NOTES PAYABLE (Continued)

	2021	2020
Notes payable to State of Hawaii, Department of Health		
Balance carried forward	\$ 12,234,855	\$ 13,202,201
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.	104,087	111,865
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 2038.	1,614,729	1,693,893
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 2037.	1,879,559	1,982,786
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 2037.	1,019,415	1,073,004
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 2037.	424,737	447,060
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 2039.	<u>19,475,483</u>	<u>20,488,995</u>
Balance forward	\$ 36,752,865	\$ 38,999,804

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 9 - NOTES PAYABLE (Continued)

	2021	2020
Notes payable to State of Hawaii, Department of Health		
Balance carried forward	\$ 36,752,865	\$ 38,999,804
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 2038.	3,685,440	3,135,147
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.75%, and loan fee rate of 1.00%, maturing in 2040.	<u>3,339,665</u>	<u>3,439,400</u>
	43,777,970	45,574,351
Less current portion	<u>(2,611,724)</u>	<u>(2,550,020)</u>
	<u>\$ 41,166,246</u>	<u>\$ 43,024,331</u>

As of June 30, 2021, future principal and interest payments for notes payable from direct borrowings are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2022	\$ 2,611,724	\$ 565,746	\$ 3,177,470
2023	2,636,349	531,320	3,167,669
2024	2,661,227	496,601	3,157,828
2025	2,686,601	461,346	3,147,947
2026	2,712,125	425,901	3,138,026
2027-2031	13,955,921	1,583,933	15,539,854
2032-2036	11,864,478	682,597	12,547,075
Thereafter	<u>4,649,545</u>	<u>88,025</u>	<u>4,737,570</u>
Total	<u>\$ 43,777,970</u>	<u>\$ 4,835,469</u>	<u>\$ 48,613,439</u>

The Department's notes payable from direct borrowings are direct obligations of the County for which its full faith and credit, including a pledge of the County's general taxing power, as security for the notes payable. Repayments of principal and interest shall be a first charge on the County's General Fund.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS

Pension Plan

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

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 2.00%) 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 (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling (1.5% of the original retirement allowance the first year, 3.0% the second year, 4.5% the third year, etc.).

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. 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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

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. 10 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.

Ordinary death benefits are available to employees who were active at time of death with at least 10 years of credited service. 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 and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Employees Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.

Police and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

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 dependent 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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

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

Contributory Class for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with 10 years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

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. 10 years of credited service is required for ordinary disability.

For police officers and firefighters, ordinary disability benefits are 1.75% of average final compensation for each year of service and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

Hybrid Class for Employees Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. 10 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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent 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 five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire within 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 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.

Contributions - Contributions are governed 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. Contributions to the pension plan from the Department were \$3,340,500 and \$2,953,047 for the fiscal years ended June 30, 2021 and 2020, respectively.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

Per Act 17 SLH 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for police and firefighters increased to 41% on July 1, 2020. The rate for all other employees increased to 24% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012, are required to contribute 7.8% of their salary and police officers and firefighters are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012, are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid 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, 2021 and 2020, the Department reported a liability of \$46,897,310 and \$43,112,852, for its proportionate share of net pension liability of the County. The net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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 the project contributions of the County. At June 30, 2020, the Department's proportion of the County's proportion was 6.5569% which was a decrease of 0.0927% from its proportion measured as of June 30, 2019. At June 30, 2019, the Department's proportion of the County's proportion was 6.6496% which was a decrease of 0.2171% from its proportion measured as of June 30, 2018.

There were no other changes between the measurement dates, June 30, 2020 and 2019, and the reporting dates, June 30, 2021 and 2020 that are expected to have a significant effect on the proportionate share of the net pension liability.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

For the fiscal years ended June 30, 2021 and 2020, the Department recognized pension expense of \$6,540,108 and \$6,084,597. At June 30, 2021 and 2020, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 533,232	\$ 53,274
Net difference between projected and actual earnings on pension plan investments	1,826,113	--
Changes in proportion and difference between Department contributions and proportionate share of contributions	1,044,240	204,545
Changes of assumptions	1,673,721	--
Department contributions subsequent to the measurement date	<u>3,340,500</u>	<u>--</u>
	<u>\$ 8,417,806</u>	<u>\$ 257,819</u>
	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 756,336	\$ 137,507
Net difference between projected and actual earnings on pension plan investments	106,774	--
Changes in proportion and difference between Department contributions and proportionate share of contributions	971,245	322,812
Changes of assumptions	3,248,054	--
Department contributions subsequent to the measurement date	<u>2,953,047</u>	<u>--</u>
	<u>\$ 8,035,456</u>	<u>\$ 460,319</u>

At June 30, 2021, the \$3,340,500 reported as deferred outflows of resources related to pensions resulted from contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2022.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2021 will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2022	\$ 1,836,460
2023	1,103,198
2024	1,069,340
2025	774,887
2026	35,602
Total	\$ 4,819,487

Actuarial Assumptions - The total pension liability in the June 30, 2020 actuarial valuation was based on the results of an experience study as of June 30, 2018, with most of the assumptions based on the period from July 1, 2013 through June 30, 2018. The actuarial assumptions used in the actuarial valuation as of June 30, 2018 was based on the results of an actuarial experience study for the five-year period ended June 30, 2018:

	2020	2019
Inflation	2.50%	2.50%
Investment rate of return, including inflation	7.00%	7.00%
Salary increases, including inflation		
Police and fire employees	5.00% to 7.00%	5.00% to 7.00%
General employees	3.50% to 6.50%	3.50% to 6.50%
Teachers	3.75% to 5.75%	3.75% to 5.75%

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Mortality rates used in the actuarial valuation as of June 30, 2020 and 2019 were based on the following:

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

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

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

The 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 of Trustees) 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 (real returns and inflation) by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2020 and 2019 are summarized in the following tables:

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

*Uses an expected inflation of 2.20%

June 30, 2019			
Strategic Allocation (Risk-Based Classes)	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return *
Broad growth	63.00%	7.65%	5.40%
Principal protection	7.00%	3.00%	0.75%
Real return	10.00%	4.55%	2.30%
Crisis risk offset	20.00%	5.15%	9.20%
	100.00%		

*Uses an expected inflation of 2.25%

Discount Rate - The discount rate used to measure the net pension liability at June 30, 2021 and 2020 was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from 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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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 as of June 30, 2021 and 2020, calculated using the discount rate of 7.00%, 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 (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	June 30, 2021		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ <u>58,762,538</u>	\$ <u>46,897,310</u>	\$ <u>35,034,222</u>
	June 30, 2020		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ <u>53,906,836</u>	\$ <u>43,112,852</u>	\$ <u>32,654,172</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's financial statements are prepared using the accrual basis of accounting under which expenses 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.

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' complete financial statements are available at <https://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 the employer pension contributions.

Payables to the Pension Plan

At June 30, 2021 and 2020, the amounts payable to the ERS totaled \$1,428,880 and \$1,022,694, respectively.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

Postemployment Benefits Other Than Pensions (OPEB)

Plan description - The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the County pays the entire base monthly contribution for employees retiring with 10 years or more 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 less 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 retiring 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 100% of the base monthly contribution. A retiree can elect a family plan to cover dependents.

For employees hired after on or after 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 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 retiring with at least 25 years of service, the County pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage, but must pay the difference.

Employees Covered by Benefit Terms - At July 1, 2020 and 2019, the following number of plan members were covered by the benefit terms:

	<u>2020</u>	<u>2019</u>
Inactive employees or their beneficiaries currently receiving benefits	1,670	1,611
Inactive employees entitled to but not yet receiving benefits	281	280
Active members	<u>2,480</u>	<u>2,467</u>
Total	<u>4,431</u>	<u>4,358</u>

Contributions - Measurement of the actuarial valuation and the annual required contributions (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. Contributions are governed by HRS Chapter 87A and may be amended through legislation.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

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, 2021 and 2020 were \$3,228,570 and \$3,718,455, which equaled the Department's allocated ARC for postemployment health care and life insurance benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2021 and 2020, the Department's share of the net OPEB liability was \$21,991,924 and \$24,007,403, respectively. The net OPEB liability was measured as of July 1, 2020 and 2019, and the total OPEB liability to calculate the net OPEB liability was determined by an actuarial valuation as of those dates.

There were no changes between the measurement date, July 1, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the net OPEB liability.

For the fiscal years ended June 30, 2021 and 2020, the Department recognized OPEB expense of \$3,551,413 and \$5,292,747, respectively. At June 30, 2021 and 2020, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 215,533	\$ 2,290,459
Net difference between projected and actual earnings on OPEB plan investments	1,129,879	--
Changes of assumptions	433,582	--
Department contributions subsequent to the measurement date	3,228,570	--
	\$ 5,007,564	\$ 2,290,459
	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 255,134	\$ 378,657
Net difference between projected and actual earnings on OPEB plan investments	283,695	--
Changes of assumptions	531,114	--
Department contributions subsequent to the measurement date	3,718,455	--
	\$ 4,788,398	\$ 378,657

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

At June 30, 2021, the \$3,228,570 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2022.

Other amounts reported as deferred inflows of resources related to OPEB as of June 30, 2021 will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2021	\$ (53,120)
2022	(9,126)
2023	(2,414)
2024	(67,430)
2025	(203,451)
Thereafter	<u>(175,924)</u>
	<u>\$ (511,465)</u>

Actuarial assumptions - The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS:

Actuarial cost method	Entry age normal
Investment rate of return	7.00%
Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Demographic assumptions	Based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the base monthly contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO*	Initial rate of 7.50%, declining to a rate of 4.70% after 13 years
HMO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
Contribution	Initial rate of 5.00%; declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for the first two years; followed by 4.00% for all future years
Vision	Initial rate of 0.00% for the first two years, followed by 2.50% for all future years
Life insurance	0.00%

* Blended rates for medical and prescription drugs

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS:

Actuarial cost method	Entry age normal
Discount Rate	7.00%
Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Demographic assumptions	Based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the base monthly contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO*	Initial rate of 7.50%, declining to a rate of 4.70% after 12 years
HMO*	Initial rate of 7.50%; declining to a rate of 4.70% after 12 years
Contribution	Initial rate of 5.00%; declining to a rate of 4.70% after 11 years
Dental	Initial rate of 5.00% for the first two years; followed by 4.00% for all future years
Vision	Initial rate of 0.00% for the first two years, followed by 2.50% for all future years
Life insurance	0.00%

* Blended rates for medical and prescription drug

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of July 1, 2020 and 2019 are summarized in the following table:

Asset Class	2020		2019	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
International equity	16.00%	7.72%	17.00%	6.90%
U.S. equity	14.00%	6.23%	15.00%	5.35%
Private equity	10.00%	5.98%	10.00%	8.80%
Core real estate	10.00%	9.66%	10.00%	3.90%
Trend following	8.00%	2.12%	9.00%	3.25%
U.S. microcap	6.00%	7.85%	7.00%	7.30%
Global options	6.00%	4.65%	7.00%	4.75%
Private credit	6.00%	5.50%	6.00%	5.60%
Long treasuries	6.00%	0.86%	6.00%	2.00%
TIPS	5.00%	0.11%	5.00%	2.75%
Alternative risk premia	5.00%	1.56%	0.00%	0.00%
Reinsurance	5.00%	4.34%	5.00%	1.20%
Core bonds	3.00%	0.08%	3.00%	1.50%
	<u>100.00%</u>		<u>100.00%</u>	

Single Discount rate - The discount rate used to measure the total OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the funding policy of the County of Maui is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend ACT 268 contributions for fiscal year ending June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due. This temporary ACT 268 suspension would not derail the plan's long-term funding progress. Even if ACT 268 is suspended through fiscal year ending June 30, 2025, as is being discussed, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

OPEB Plan Fiduciary Net Position - The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer 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 on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. The EUTF's complete financial statements are available at <https://eutf.hawaii.gov>.

Changes in the Net OPEB Liability

The following schedule presents the changes in the net OPEB liability for the fiscal years ended June 30, 2021 and 2020. The ending balances are as of the measurement dates, July 1, 2020 and 2019.

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2020	\$ 45,072,263	\$ 21,064,860	\$ 24,007,403
Changes for the fiscal year:			
Service cost	963,452	--	963,452
Interest on the total OPEB liability	3,068,806	--	3,068,806
Contributions - employer	--	3,258,034	(3,258,034)
Net investment income	--	413,822	(413,822)
Difference between expected and actual experience	(2,334,778)	--	(2,334,778)
Changes in assumptions	(38,908)	--	(38,908)
Benefit payments	(1,410,241)	(1,410,241)	--
Administrative expense	--	(3,298)	3,298
Other	--	5,493	(5,493)
Net changes	<u>248,331</u>	<u>2,263,810</u>	<u>(2,015,479)</u>
Balance at June 30, 2021	\$ <u>45,320,594</u>	\$ <u>23,328,670</u>	\$ <u>21,991,924</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2019	\$ <u>41,863,889</u>	\$ <u>17,960,195</u>	\$ <u>23,903,694</u>
Changes for the fiscal year:			
Service cost	1,016,133	--	1,016,133
Interest on the total OPEB liability	3,134,524	--	3,134,524
Contributions - employer	--	3,044,435	(3,044,435)
Net investment income	--	841,184	(841,184)
Difference between expected and actual experience	298,466	--	298,466
Changes in assumptions	230,418	--	230,418
Benefit payments	(1,471,167)	(1,471,167)	--
Administrative expense	--	(6,375)	6,375
Other	--	696,588	(696,588)
Net changes	<u>3,208,374</u>	<u>3,104,665</u>	<u>103,709</u>
Balance at June 30, 2020	\$ <u>45,072,263</u>	\$ <u>21,064,860</u>	\$ <u>24,007,403</u>

Sensitivity of the Department's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Department's proportionate share of the net OPEB liability calculated using the discount rate, as well as what the Department's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2021		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	\$ <u>28,556,881</u>	\$ <u>21,991,924</u>	\$ <u>15,643,868</u>
	June 30, 2020		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	\$ <u>33,806,953</u>	\$ <u>24,007,403</u>	\$ <u>19,470,989</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 10 - RETIREMENT BENEFITS (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates -

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

	June 30, 2021		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Department's proportionate share of the net OPEB liability	\$ <u>15,407,857</u>	\$ <u>21,991,924</u>	\$ <u>28,971,080</u>
	June 30, 2020		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Department's proportionate share of the net OPEB liability	\$ <u>19,195,040</u>	\$ <u>24,007,403</u>	\$ <u>34,290,940</u>

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 by contributing to a fund managed by a plan administrator. 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. Therefore, in accordance with GASB Statement No.32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, deferred compensation plan assets are not reported in the accompanying basic financial statements.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 11 - SICK LEAVE

Accrued sick leave aggregated to approximately \$5.6 million and \$5.1 million as of June 30, 2021 and 2020, respectively. 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.

SUPPLEMENTARY INFORMATION

**Department of Water Supply
County of Maui
SCHEDULE I - SCHEDULE OF CAPITAL ASSETS
Fiscal Year Ended June 30, 2021**

Description	Balance July 1, 2020	Additions and Transfers	Reductions/ Retirements	Balance June 30, 2021	Accumulated Depreciation July 1, 2020	Additions	Reductions/ Retirements	Accumulated Depreciation June 30, 2021
Land	\$ 8,007,145	\$ --	\$ --	\$ 8,007,145	\$ --	\$ --	\$ --	\$ --
Source of Supply Structures	13,643,247	9,200	--	13,652,447	1,389,496	272,135	--	1,661,631
Collecting and Impounding Reservoirs	4,251,683	--	--	4,251,683	3,768,763	53,715	--	3,822,478
Wells & Springs	23,669,280	--	--	23,669,280	6,333,493	468,664	--	6,802,157
Power & Pumping Structures	23,302,101	78,571	--	23,380,672	3,192,939	517,806	--	3,710,745
Purification Buildings	35,296,935	--	--	35,296,935	32,523,500	607,241	--	33,130,741
Distribution Reservoirs	87,947,865	2,121,222	--	90,069,087	35,549,972	2,296,602	--	37,846,574
Office Building	1,672,930	--	--	1,672,930	1,265,017	32,266	--	1,297,283
Field Operation Building	1,349,400	--	--	1,349,400	926,537	32,241	--	958,778
Utility Plant - Unclassified	591,079	--	--	591,079	590,959	124	--	591,083
Electric Pumping Equipment	41,687,814	1,150,937	(223,439)	42,615,312	29,030,296	2,184,190	(224,439)	30,990,047
Other Power Pumping Equipment	3,430,785	54,437	--	3,485,222	2,526,974	222,554	--	2,749,528
Purification System - Chlorinators	8,084,554	9,076	(774)	8,092,856	3,684,272	512,925	(774)	4,196,423
Purification System - Filter Plants	57,185,291	--	(147,300)	57,037,991	46,857,117	1,268,746	(95,745)	48,030,118
Transmission & Distribution Mains	321,966,995	5,125,767	(77,070)	327,015,692	145,248,692	7,045,243	(193,773)	152,100,162
Service Laterals	4,609,557	133,088	--	4,742,645	2,789,387	150,977	--	2,940,364
Meters	8,984,838	11,543	--	8,996,381	6,280,291	404,260	--	6,684,551
Office Furniture & Equipment	54,155	23,973	--	78,128	37,568	2,920	--	40,488
Stores Equipment	198,385	--	--	198,385	120,529	5,276	--	125,805
Shop Equipment	72,674	--	(70)	72,604	67,949	315	(70)	68,194
Laboratory Equipment	535,995	--	--	535,995	374,946	19,581	--	394,527
Work Equipment	4,795,956	181,015	(30,768)	4,946,203	1,908,045	227,925	(30,768)	2,105,202
Communication Equipment	1,682,737	24,863	--	1,707,600	1,380,907	64,542	--	1,445,449
Meter Boxes	291,058	--	(4,163)	286,895	291,058	--	(4,163)	286,895
Hydrants	11,848,593	92,709	(2,185)	11,939,117	4,824,248	233,900	(2,185)	5,055,963
Standpipes	246,277	--	(9,991)	236,286	221,150	3,546	(9,991)	214,705
	<u>665,407,329</u>	<u>9,016,401</u>	<u>(495,760)</u>	<u>673,927,970</u>	<u>331,184,105</u>	<u>16,627,694</u>	<u>(561,908)</u>	<u>347,249,891</u>
Office Machines	666,070	23,229	(202,990)	486,309	617,976	22,304	(202,990)	437,290
Transportation Equipment	<u>5,588,712</u>	<u>500,818</u>	<u>(903)</u>	<u>6,088,627</u>	<u>5,120,146</u>	<u>257,644</u>	<u>(1,132)</u>	<u>5,376,658</u>
Total Capital Assets (1)	\$ <u>671,662,111</u>	\$ <u>9,540,448</u>	\$ <u>(699,653)</u>	\$ <u>680,502,906</u>	\$ <u>336,922,227</u>	\$ <u>16,907,642</u>	\$ <u>(766,030)</u>	\$ <u>353,063,839</u>
Construction in Aid		\$ 3,432,428						
Capital Replacement Fund		2,225,491						
Construction in Aid - Direct		1,228,182						
Revenue Fund		751,354						
Water System Development Fund		<u>1,902,993</u>						
		\$ <u>9,540,448</u>						

(1) Excludes construction in progress.

**Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS
June 30, 2021**

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2021	Payable Within One Year
G.O. Refunding Bonds, 2012 Series B (b)								
	2022	5.000	11/1/2012	6/1/2022	Noncallable	\$ 206,056	\$ 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>2,690,340</u>	<u>2,690,340</u>	<u>206,056</u>
G.O. Refunding Bonds, 2012 Series C (c)								
	2022	5.000	11/1/2012	6/1/2022	Noncallable	1,035,000	1,035,000	1,035,000
	2023	4.000	11/1/2012	6/1/2023	Noncallable	<u>1,090,000</u>	<u>1,090,000</u>	<u>--</u>
Total 2012 Series C Issue						<u>2,125,000</u>	<u>2,125,000</u>	<u>1,035,000</u>
G.O. Refunding Bonds, 2014 Series C (d)								
	2022	5.000	12/1/2014	6/1/2022	Noncallable	305,000	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	<u>465,000</u>	<u>465,000</u>	<u>--</u>
Total 2014 Series C Issue						<u>5,005,000</u>	<u>5,005,000</u>	<u>305,000</u>

**Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS (Continued)
June 30, 2021**

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2021	Payable Within One Year
G.O. Refunding Bonds, 2015 Series D (f)								
	2022	5.000	3/1/2016	9/1/2022	Noncallable	\$ 343,128	\$ 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>2,334,384</u>	<u>2,334,384</u>	<u>343,128</u>
G.O. Refunding Bonds, 2018 Series C (g)								
	2022	5.000	9/1/2018	9/1/2022	Noncallable	250,000	250,000	250,000
	2023	5.000	9/1/2018	9/1/2023	Noncallable	265,000	265,000	--
	2024	5.000	9/1/2018	9/1/2024	Noncallable	275,000	275,000	--
	2025	5.000	9/1/2018	9/1/2025	Noncallable	290,000	290,000	--
	2026	5.000	9/1/2018	9/1/2026	Noncallable	305,000	305,000	--
	2027	5.000	9/1/2018	9/1/2027	Noncallable	320,000	320,000	--
	2028	5.000	9/1/2018	9/1/2028	Noncallable	335,000	335,000	--
	2029	5.000	9/1/2018	9/1/2029	9/1/2028	350,000	350,000	--
	2030	5.000	9/1/2018	9/1/2030	9/1/2028	370,000	370,000	--
	2031	4.000	9/1/2018	9/1/2031	9/1/2028	390,000	390,000	--
	2032	3.000	9/1/2018	9/1/2032	9/1/2028	405,000	405,000	--
Total 2018 Series C Issue						<u>3,555,000</u>	<u>3,555,000</u>	<u>250,000</u>

**Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS (Continued)
June 30, 2021**

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2021	Payable Within One Year
G.O. Refunding Bonds, 2020 Series B	2022	5.000	9/23/2020	3/1/2022	Noncallable	\$ 29,563	\$ 29,563	\$ 29,563
	2023	5.000	9/23/2020	3/1/2023	Noncallable	31,561	31,561	--
	2024	5.000	9/23/2020	3/1/2024	Noncallable	33,957	33,957	--
	2025	5.000	9/23/2020	3/1/2025	Noncallable	36,354	36,354	--
	2026	5.000	9/23/2020	3/1/2026	Noncallable	38,752	38,752	--
	2027	5.000	9/23/2020	3/1/2027	Noncallable	41,149	41,149	--
	2028	5.000	9/23/2020	3/1/2028	Noncallable	43,945	43,945	--
	2029	5.000	9/23/2020	3/1/2029	Noncallable	47,141	47,141	--
Total 2020 Series B Issue	2030	5.000	9/23/2020	3/1/2030	Noncallable	<u>50,337</u>	<u>50,337</u>	<u>--</u>
						<u>352,759</u>	<u>352,759</u>	<u>29,563</u>
						<u>\$ 16,062,483</u>	<u>\$ 16,062,483</u>	<u>\$ 2,168,747</u>

Total General Obligation Bonds

**Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS (Continued)
June 30, 2021**

NOTES:

- (a) 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 to June 1, 2032, 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.
- (b) 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.
- (c) 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 to June 1, 2034, 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.
- (d) 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 to September 1, 2027, 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.
- (e) The General Obligation Refunding Bonds, 2018, Series C, maturing on or before September 1, 2028 are not subject to redemption prior to maturity. The bonds maturing on or after September 1, 2029 are subject to redemption at the option of the County on or after September 1, 2028, in whole or in part at any time, from any maturities selected by the County, at a redemption price equal to 100% of the principal amount of the Bonds or portions thereof to be redeemed plus accrued interest to the date of redemption.
- (f) The General Obligation Refunding Bonds, 2020 Series B, maturing on or before March 1, 2030 are issued without the right or option of the County of Maui to redeem the same prior to their maturity dates.

PART II

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS**

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Water Supply
County of Maui

We have audited, in accordance with the 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, the financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County of Maui, State of Hawaii as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawai'i
January 31, 2022