

County Auditor
Lance T. Taguchi



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COUNTY CLERK

January 8, 2018

The Honorable Mike White, Chair
and Members of the Council
County of Maui
Wailuku, Hawaii 96793

Dear Chair White and Members:

**SUBJECT: DEPARTMENT OF WATER SUPPLY FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT FOR FISCAL
YEARS ENDED JUNE 30, 2017 AND 2016**

We have received the Department of Water Supply Financial Statements and Supplementary Information with Independent Auditor's Report for Fiscal Years Ended June 30, 2017 and 2016, submitted by N&K CPAs, Inc., the County's contractor.

Transmitted are 19 copies.

May I request that the report be referred to the appropriate standing committee for discussion and action.

Sincerely,

A handwritten signature in blue ink, appearing to read "Lance T. Taguchi", is written over a horizontal line.

LANCE T. TAGUCHI
County Auditor

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Enclosures

COUNTY COMMUNICATION NO. 18-31

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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2017 and 2016



**DEPARTMENT OF WATER SUPPLY
COUNTY OF MAUI**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County of Maui, as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department, as of June 30, 2017 and 2016, 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 that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the County of Maui as of June 30, 2017 and 2016, the changes in its financial position, or its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Principle

As discussed in Note 13 to the financial statements, the Department adopted new accounting guidance that clarifies standards for accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. 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 net pension liability, contributions, and funding progress, that accounting principles generally accepted in the United States require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the 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 financial statements. The supplemental schedules of capital assets and of long-term debt-general obligation bonds as of June 30, 2017, are presented for purposes of additional analysis and are not a required part of the 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 relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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
December 13, 2017

**Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION
June 30, 2017 and 2016**

| | 2017 | 2016 (as restated) |
|---|-----------------------|-------------------------------|
| CURRENT ASSETS | | |
| Equity in pooled cash and investments held in County Treasury | \$ 52,515,728 | \$ 44,162,398 |
| Customer receivables | | |
| Billed | 3,815,384 | 3,470,475 |
| Less: allowance for doubtful accounts | <u>(76,667)</u> | <u>(141,524)</u> |
| | 3,738,717 | 3,328,951 |
| Unbilled | <u>3,027,172</u> | <u>2,677,024</u> |
| Total customer receivables | <u>6,765,889</u> | <u>6,005,975</u> |
| Materials and supplies | 1,534,476 | 1,411,131 |
| Other current assets | <u>1,556,006</u> | <u>244,832</u> |
| Total current unrestricted assets | <u>62,372,099</u> | <u>51,824,336</u> |
| RESTRICTED ASSETS | | |
| Equity in pooled cash and investments held in County Treasury | 19,993,443 | 18,013,522 |
| Total current assets | <u>82,365,542</u> | <u>69,837,858</u> |
| CAPITAL ASSETS | | |
| Utility plant in service | 593,223,938 | 564,620,814 |
| Less accumulated depreciation | <u>(287,921,052)</u> | <u>(273,532,918)</u> |
| | 305,302,886 | 291,087,896 |
| Construction work in progress | <u>34,854,382</u> | <u>40,902,841</u> |
| Total capital assets | <u>340,157,268</u> | <u>331,990,737</u> |
| TOTAL ASSETS | <u>422,522,810</u> | <u>401,828,595</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows of resources related to pensions | 12,970,330 | 3,490,904 |
| Unamortized loss on advanced refunding | <u>158,295</u> | <u>228,730</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>13,128,625</u> | <u>3,719,634</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 435,651,435</u> | <u>\$ 405,548,229</u> |

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION (Continued)
June 30, 2017 and 2016**

| | 2017 | 2016 (as restated) |
|--|-----------------------|-------------------------------|
| CURRENT LIABILITIES | | |
| Payable from unrestricted current assets | | |
| Bonds payable, current portion | \$ 2,447,357 | \$ 2,352,483 |
| Notes payable, current portion | 1,318,665 | 1,301,828 |
| Accounts payable | 2,286,694 | 2,294,685 |
| Accrued vacation, current portion | 888,443 | 817,781 |
| Construction contracts payable, including retainages | 646,121 | 818,919 |
| Claims and judgments | 1,676,718 | 1,239,213 |
| Accrued interest payable | 302,353 | 293,126 |
| Customer advances for utility construction | <u>106,973</u> | <u>40,666</u> |
| | 9,673,324 | 9,158,701 |
| Payable from restricted assets | | |
| Construction contracts payable, including retainages | 2,597,664 | 2,317,913 |
| Customer deposits | 764,306 | 609,343 |
| Refundable advances | <u>1,000,000</u> | <u>1,000,000</u> |
| | <u>4,361,970</u> | <u>3,927,256</u> |
| Total current liabilities | <u>14,035,294</u> | <u>13,085,957</u> |
| NON-CURRENT LIABILITIES | | |
| Bonds payable, non-current portion | 22,083,619 | 24,932,975 |
| Notes payable, non-current portion | 27,849,760 | 20,957,731 |
| Net pension liability | 39,134,359 | 26,679,011 |
| Accrued vacation, non-current portion | <u>1,292,463</u> | <u>1,226,308</u> |
| Total non-current liabilities | <u>90,360,201</u> | <u>73,796,025</u> |
| TOTAL LIABILITIES | <u>104,395,495</u> | <u>86,881,982</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows of resources related to pensions | 1,289,870 | 2,006,618 |
| Unamortized gain on advanced refunding | <u>180,272</u> | <u>450,680</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>1,470,142</u> | <u>2,457,298</u> |
| NET POSITION | | |
| Net investment in capital assets | 288,741,142 | 284,873,905 |
| Restricted | 16,923,769 | 14,825,370 |
| Unrestricted | <u>24,120,887</u> | <u>16,509,674</u> |
| TOTAL NET POSITION | <u>329,785,798</u> | <u>316,208,949</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 435,651,435</u> | <u>\$ 405,548,229</u> |

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 (as restated) |
|--|-----------------------|-------------------------------|
| OPERATING REVENUES | | |
| Water sales | \$ 62,814,311 | \$ 59,917,911 |
| Other revenues | <u>818,924</u> | <u>625,701</u> |
| Total operating revenues | <u>63,633,235</u> | <u>60,543,612</u> |
| OPERATING EXPENSES | | |
| Depreciation and amortization | 14,406,243 | 16,254,652 |
| Administrative and general | 20,547,256 | 17,899,266 |
| Power and pumping | 11,157,903 | 10,826,084 |
| Transmission and distribution | 6,777,635 | 7,030,067 |
| Purification | 6,127,226 | 6,271,993 |
| Customers' accounting and collection | 2,317,896 | 1,555,614 |
| Source of supply | <u>484,398</u> | <u>1,517,429</u> |
| Total operating expenses | <u>61,818,557</u> | <u>61,355,105</u> |
| Operating income (loss) | <u>1,814,678</u> | <u>(811,493)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest expense, net of interest capitalized of \$509,611 for 2017 and \$64,488 for 2016 | (389,602) | (919,220) |
| Interest and investment earnings | <u>785,552</u> | <u>610,572</u> |
| Total nonoperating revenues (expenses), net | <u>395,950</u> | <u>(308,648)</u> |
| Income (loss) before capital contributions | 2,210,628 | (1,120,141) |
| Capital contributions | <u>11,366,221</u> | <u>6,465,141</u> |
| Change in net position | 13,576,849 | 5,345,000 |
| NET POSITION | | |
| Beginning of year, as previously reported | 316,208,949 | 311,492,733 |
| Restatement adjustment: cumulative effect of implementation of new accounting standard | <u> --</u> | <u>(628,784)</u> |
| Beginning of year, as restated | <u>316,208,949</u> | <u>310,863,949</u> |
| End of year | \$ <u>329,785,798</u> | \$ <u>316,208,949</u> |

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2017 and 2016**

| | <u>2017</u> | <u>2016</u> (as restated) |
|--|----------------------|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers and others | \$ 62,859,449 | \$ 60,548,141 |
| Payments to suppliers for goods and services | (37,307,583) | (37,087,634) |
| Payments to employees for services | (8,592,919) | (10,264,298) |
| Receipts (refunds) of utility construction advances | <u>221,270</u> | <u>(129,123)</u> |
| Net cash provided by operating activities | <u>17,180,217</u> | <u>13,067,086</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest and investment earnings received from investments | <u>785,552</u> | <u>610,572</u> |
| Net cash provided by investing activities | <u>785,552</u> | <u>610,572</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Cash paid for acquisition of construction of capital assets, including capitalized interest | (18,152,428) | (19,081,112) |
| Principal paid on bonds and notes | (3,661,394) | (9,203,987) |
| Proceeds from bonds and notes payable | 8,218,402 | 9,247,860 |
| Cash received from capital contributions | 7,455,486 | 2,996,313 |
| Interest paid on bonds and notes payable | <u>(1,492,584)</u> | <u>(1,608,839)</u> |
| Net cash used in capital and related financing activities | <u>(7,632,518)</u> | <u>(17,649,765)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 10,333,251 | (3,972,107) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR | <u>62,175,920</u> | <u>66,148,027</u> |
| CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR | \$ <u>72,509,171</u> | \$ <u>62,175,920</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION | | |
| Unrestricted | \$ 52,515,728 | \$ 44,162,398 |
| Restricted | <u>19,993,443</u> | <u>18,013,522</u> |
| | \$ <u>72,509,171</u> | \$ <u>62,175,920</u> |

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 (as restated) |
|---|---------------|-------------------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ 1,814,678 | \$ (811,493) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,406,243 | 16,254,652 |
| Provision for doubtful accounts | (23,843) | 26,174 |
| Pension expense | 4,532,361 | 2,257,225 |
| Changes in assets, deferred outflows, liabilities and deferred inflows: | | |
| Customer receivables | (736,071) | (60,068) |
| Materials and supplies | (123,345) | (186,945) |
| Other current assets | (1,311,174) | 592,543 |
| Deferred outflows of resources related to pensions | (2,273,187) | (2,246,455) |
| Accounts and construction contracts payable | 89,143 | (2,820,646) |
| Claims and judgments | 437,505 | (205,782) |
| Other liabilities and deposits | 367,907 | 267,881 |
| Net cash provided by operating activities | \$ 17,180,217 | \$ 13,067,086 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital contributions | \$ 3,910,735 | \$ 3,468,828 |
| Amortization of deferred loss on refunding | \$ 70,435 | \$ 67,731 |
| Amortization of deferred gain on refunding | \$ 270,408 | \$ 225,338 |
| Amortization of bond premium | \$ 402,625 | \$ 416,544 |

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) **Organization** - The Department of Water Supply (the Department) operates as a proprietary fund in the County of Maui, State of Hawaii (the County), to develop adequate water sources, storage, and transmission for both urban and agricultural uses for the County. The County Charter amendment (effective January 2, 2003) provides the following:
- The Department is a regular County of Maui agency subject to the Mayor's executive management and Council's legislative oversight.
 - The current Board of Directors of the Department is an advisory body (with power to recommend budget proposals and rate adjustments).
 - The Mayor has the power to appoint the Director (with approval of Council).
 - The Department has the responsibility to survey public and private water sources.
 - The Department must prepare and annually update a long-range capital improvement plan (subject to Council approval) and implement such approved plans. The Council has the power to issue general obligation bonds and provide appropriations for capital improvements of the water system.
- (2) **Financial Statement Presentation** - The Department is a proprietary type fund of the County (the primary government). The accompanying financial statements present only the financial position and activities of the Department, and do not purport to, and do not present the financial position of the County, the changes in financial position, or its cash flows in conformity 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 conformity 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 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, 2017 and 2016**

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

Total accounts receivable past due for over 90 days amounted to approximately \$266,000 and \$259,000 as of June 30, 2017 and 2016, respectively.

- (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. Interest costs are capitalized during the construction period of major capital projects. 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.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

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

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:

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

- (11) **Debt Premium and Discounts** - Debt premium and discounts arising from the issuance of debt securities are amortized over the terms of the related issues on the bonds outstanding method. Amortization of debt premiums is recorded as a reduction of interest expense.
- (12) **Deferred Amounts on Advance Refundings** - For advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the carrying amount of the old debt is deferred. This amount is amortized as a component of interest expense using the bonds outstanding method over the remaining life of the old debt or the life of the new, whichever is shorter. The amount deferred is reported as a deferred inflow or outflow of resources.
- (13) **Compensated Absences** - Employees earn vacation benefits at one and three-quarters working days for each month of service. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. Unused vacation benefits are converted to pay upon termination of employment.
- (14) **Deferred Outflows of Resources and Deferred Inflows of Resources** - Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense or expenditure) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.
- (15) **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, 2017 and 2016**

**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.

(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.

(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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

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

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

The GASB issued Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management has adopted the applicable requirements of the new standard as presented in the Department's financial statements.

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. 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, 2017 and 2016**

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

The GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. 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, 2017 and 2016, 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 \$72,509,171 and \$62,175,920, respectively.

County's Investment Policy

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

Specific requirements under the HRS are as follows:

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

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

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

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

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

Custodial credit risk for bank depository accounts is the risk that in the event of a bank failure, the County's deposits may not be returned. It is the County's policy to place its bank deposits with State of Hawaii high credit quality financial institutions that are able to meet the collateral requirements for the County's deposits. As of June 30, 2017 and 2016, all of the County's time certificates of deposits and cash deposits were insured and collateralized.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2017 and 2016, the investments in the County's investment pool were not subject to foreign currency risk.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

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 comprehensive annual financial report.

The Department's share of the County's cash and investment pool, as summarized in the tables below was approximately 21.0% and 18.7% at June 30, 2017 and 2016, respectively.

As of June 30, 2017, the County's cash and investments were as follows:

| Type of Investment | % Yield | Maturity | | | | Premiums (Discounts) | Fair Value |
|---|-------------|---------------------|----------------------|----------------------|-----------------------|-------------------------|---|
| | | Under 30 Days | 31 - 180 Days | 181 - 365 Days | 1 - 5 Years | | |
| Federal National Mortgage Association Coupon Notes | 1.21 - 2.00 | \$ -- | \$ -- | \$ -- | \$ 47,955,000 | \$ 20,632 | \$ 47,975,632 |
| Federal Home Loan Bank Bank Notes | 0.86 - 2.21 | -- | -- | 12,000,000 | 47,500,000 | 17,764 | 59,517,764 |
| Federal Farm Credit Bank Notes | 0.94 | -- | 4,000,000 | -- | -- | 621 | 4,000,621 |
| Federal Agricultural Mortgage Corporation Notes | 0.64 - 0.88 | 5,000,000 | -- | 14,000,000 | -- | 30 | 19,000,030 |
| Federal Home Loan Mortgage Corporation Notes | 0.90 - 2.40 | -- | -- | -- | 35,630,000 | (17,832) | 35,612,168 |
| U.S. Treasury Strips | 1.38 - 1.94 | -- | -- | -- | 5,000,000 | (224,237) | 4,775,763 |
| U.S. Treasury Notes | 0.97 - 1.78 | -- | 2,800,000 | -- | 2,000,000 | (10,141) | 4,789,859 |
| State and County obligations | 0.76 - 2.23 | -- | -- | -- | 25,855,000 | 138,256 | 25,993,256 |
| Commercial Paper | 1.32 | -- | <u>6,000,000</u> | -- | -- | <u>(7,260)</u> | <u>5,992,740</u> |
| Total investments | | \$ <u>5,000,000</u> | \$ <u>12,800,000</u> | \$ <u>26,000,000</u> | \$ <u>163,940,000</u> | \$ <u>(82,167)</u> | 207,657,833 |
| Type of Deposits | | | | | | | |
| Various certificates of deposit | 0.10 - 2.30 | \$ <u>2,500,000</u> | \$ <u>3,997,000</u> | \$ <u>6,350,000</u> | \$ <u>73,159,241</u> | | <u>86,006,241</u> |
| | | | | | | | Total investments and certificates of deposit |
| | | | | | | | 293,664,074 |
| | | | | | | | Cash on hand and deposits |
| | | | | | | | <u>50,928,105</u> |
| | | | | | | | Total equity in pooled cash and investments |
| | | | | | | | \$ <u>344,592,179</u> |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

Unrestricted equity in pooled cash and investments held in County Treasury at June 30, 2017 and 2016 include funds for the following purposes:

| | <u>2017</u> | <u>2016</u> |
|------------------------|----------------------|----------------------|
| Board-designated | | |
| Capital improvements | \$ 8,409,188 | \$ 14,073,479 |
| Debt service | <u>1,690,267</u> | <u>1,655,883</u> |
| Total board-designated | 10,099,455 | 15,729,362 |
| Undesignated | <u>42,416,273</u> | <u>28,433,036</u> |
| Total | \$ <u>52,515,728</u> | \$ <u>44,162,398</u> |

At June 30, 2017 and 2016, construction contract payables, including retentions, to be paid with board-designated funds were approximately \$600,000 and \$800,000, respectively. Construction contract commitments as of June 30, 2017 and 2016, to be paid with board-designated funds, aggregated approximately \$4.6 million and \$5.9 million, respectively. There are no amounts included in the construction contract commitment amounts for 2017 for maintenance of compliance-order projects and no amounts included for management's estimates needed in anticipation of future regulations for compliance.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Restricted equity in pooled cash and investments held in County Treasury consisted of the following at June 30, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|----------------------|----------------------|
| Water system development fee | \$ 10,016,697 | \$ 8,657,633 |
| State funds | 6,440,718 | 5,000,000 |
| Bond funds | 2,305,252 | 2,650,134 |
| Customer deposits | 764,423 | 609,286 |
| Special assessment fund for storage | 273,829 | 273,829 |
| Source development fund assessments | 192,524 | 205,525 |
| Federal funds | -- | 605,529 |
| Construction fund | <u>--</u> | <u>11,586</u> |
| Total | \$ <u>19,993,443</u> | \$ <u>18,013,522</u> |

At June 30, 2017 and 2016, construction voucher and contract payables, including retentions, to be paid with restricted assets were approximately \$2.6 million and \$2.3 million, respectively. Construction contract commitments as of June 30, 2017 and 2016, to be paid with restricted assets, aggregated approximately \$28.0 million and \$14.2 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,

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

- Inputs other than quoted prices that are observable for the asset or liability,
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2017 and 2016:

| | Assets at Fair Value at June 30, 2017 | | | |
|------------------------------|---------------------------------------|---------------------|-----------------------|--------------|
| | Total | Level 1 | Level 2 | Level 3 |
| U. S. Treasury obligations | \$ 9,565,622 | \$ 9,565,622 | \$ -- | \$ -- |
| U. S. Government agencies | 166,106,215 | -- | 166,106,215 | -- |
| State and County obligations | 25,993,256 | -- | 25,993,256 | -- |
| Commercial Paper | <u>5,992,740</u> | <u>--</u> | <u>5,992,740</u> | <u>--</u> |
| | <u>\$ 207,657,833</u> | <u>\$ 9,565,622</u> | <u>\$ 198,092,211</u> | <u>\$ --</u> |

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 4 - RESTRICTED NET POSITION

At June 30, 2017 and 2016, restricted net position consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|----------------------|----------------------|
| Water system development fee | \$ 10,016,697 | \$ 8,657,633 |
| Special assessment fund for storage | 273,829 | 273,829 |
| Source development fund assessments | 192,525 | 205,525 |
| Other restricted funds | <u>6,440,718</u> | <u>5,688,383</u> |
| Total | \$ <u>16,923,769</u> | \$ <u>14,825,370</u> |

NOTE 5 - CAPITAL CONTRIBUTIONS

Capital contributions during the fiscal years ended June 30, 2017 and 2016, were as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|----------------------|---------------------|
| Dedication of infrastructure assets | \$ 3,910,735 | \$ 3,468,828 |
| Source development fund assessments | 2,582,826 | 1,350,067 |
| Other | <u>4,872,660</u> | <u>1,646,246</u> |
| Total | \$ <u>11,366,221</u> | \$ <u>6,465,141</u> |

NOTE 6 - CAPITAL ASSETS

Capital assets activity during the fiscal year ended June 30, 2017, was as follows:

| | <u>Balance July 1, 2016</u> | <u>Additions</u> | <u>Reductions/ Retirements</u> | <u>Balance June 30, 2017</u> |
|--------------------------|---------------------------------|----------------------|------------------------------------|----------------------------------|
| Non-depreciable assets | | | | |
| Land | \$ 7,347,248 | \$ 557,811 | \$ -- | \$ 7,905,059 |
| Construction in progress | <u>40,902,841</u> | <u>17,376,011</u> | <u>(23,424,470)</u> | <u>34,854,382</u> |
| | <u>48,250,089</u> | <u>17,933,822</u> | <u>(23,424,470)</u> | <u>42,759,441</u> |
| Depreciable assets | | | | |
| Buildings and systems | 143,618,677 | 16,968,030 | -- | 160,586,707 |
| Machinery and equipment | 402,411,980 | 10,907,609 | (18,109) | 413,301,480 |
| Other | <u>11,242,909</u> | <u>187,783</u> | <u>--</u> | <u>11,430,692</u> |
| | <u>557,273,566</u> | <u>28,063,422</u> | <u>(18,109)</u> | <u>585,318,879</u> |
| Accumulated depreciation | | | | |
| Buildings and systems | 68,444,677 | 3,510,578 | -- | 71,955,255 |
| Machinery and equipment | 200,740,734 | 10,669,893 | (18,109) | 211,392,518 |
| Other | <u>4,347,507</u> | <u>225,772</u> | <u>--</u> | <u>4,573,279</u> |
| | <u>273,532,918</u> | <u>14,406,243</u> | <u>(18,109)</u> | <u>287,921,052</u> |
| Total Capital Assets | \$ <u>331,990,737</u> | \$ <u>31,591,001</u> | \$ <u>(23,424,470)</u> | \$ <u>340,157,268</u> |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 6 - CAPITAL ASSETS (Continued)

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

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

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities of the Department of Water Supply for the fiscal year ended June 30, 2017, are as follows:

| | Balance July 1, 2016 | Additions | Reductions | Balance June 30, 2017 | Due Within One Year |
|--------------------------|-------------------------|----------------------|---------------------|--------------------------|------------------------|
| Bonds payable | \$ 27,285,458 | \$ -- | \$ 2,754,482 | \$ 24,530,976 | \$ 2,447,357 |
| Notes payable | 22,259,559 | 8,218,402 | 1,309,536 | 29,168,425 | 1,318,665 |
| Accrued vacation payable | 2,044,089 | 969,524 | 832,707 | 2,180,906 | 888,443 |
| Net pension liability | 26,679,011 | 14,666,410 | 2,211,062 | 39,134,359 | -- |
| Claims and judgments | <u>1,239,213</u> | <u>951,870</u> | <u>514,365</u> | <u>1,676,718</u> | <u>1,676,718</u> |
| Total | \$ <u>79,507,330</u> | \$ <u>24,806,206</u> | \$ <u>7,622,152</u> | \$ <u>96,691,384</u> | \$ <u>6,331,183</u> |

A summary of changes in long-term liabilities of the Department of Water Supply for the fiscal year ended June 30, 2016, are as follows:

| | Balance July 1, 2015 | Additions | Reductions | Balance June 30, 2016 | Due Within One Year |
|--------------------------|-------------------------|----------------------|----------------------|--------------------------|------------------------|
| Bonds payable | \$ 29,945,670 | \$ 6,255,413 | \$ 8,915,625 | \$ 27,285,458 | \$ 2,352,483 |
| Notes payable | 20,468,900 | 2,992,447 | 1,201,788 | 22,259,559 | 1,301,828 |
| Accrued vacation payable | 2,009,060 | 838,796 | 803,767 | 2,044,089 | 817,781 |
| Net pension liability | 24,207,754 | 4,677,687 | 2,206,430 | 26,679,011 | -- |
| Claims and judgments | <u>1,444,995</u> | <u>314,863</u> | <u>520,645</u> | <u>1,239,213</u> | <u>1,239,213</u> |
| Total | \$ <u>78,076,379</u> | \$ <u>15,079,206</u> | \$ <u>13,648,255</u> | \$ <u>79,507,330</u> | \$ <u>5,711,305</u> |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 8 - BONDS PAYABLE

At June 30, 2017 and 2016, bonds payable consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| General Obligation Refunding Bonds, 2008 Series A, due in annual installments through 2028, interest payable semi-annually at 3.5%. These bonds were partially refunded by 2015 Series D bonds. | \$ 273,458 | \$ 537,113 |
| General Obligation Refunding Bonds, 2010 Series B, due in annual installments through 2021, interest payable semi-annually from 4.0% to 5.0%. | 1,635,722 | 2,003,610 |
| General Obligation Refunding Bonds, 2012 Series B, due in annual installments through 2032, interest payable semi-annually from 2.1% to 5.0%. | 3,420,727 | 3,582,283 |
| General Obligation Refunding Bonds, 2012 Series C, due in annual installments through 2023, interest payable semi-annually from 4.0% to 5.0%. | 5,795,000 | 6,605,000 |
| General Obligation Refunding Bonds, 2014 Series C, due in annual installments through 2034, interest payable semi-annually from 3.0% to 5.0%. | 6,080,000 | 6,315,000 |
| General Obligation Refunding Bonds, 2015 Series B, due in annual installments through 2020, interest payable semi-annually at 5.0%. | 1,645,365 | 2,159,124 |
| General Obligation Refunding Bonds, 2015 Series D, due in annual installments through 2027, interest payable semi-annually from 3.0% to 5.0%. | <u>3,269,112</u> | <u>3,269,112</u> |
| | 22,119,384 | 24,471,242 |
| Less current portion | <u>(2,447,357)</u> | <u>(2,352,483)</u> |
| | 19,672,027 | 22,118,759 |
| Unamortized premium | <u>2,411,592</u> | <u>2,814,216</u> |
| Noncurrent portion | \$ <u>22,083,619</u> | \$ <u>24,932,975</u> |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 8 - BONDS PAYABLE (Continued)

Future bond principal and interest payments are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|----------------------|---------------------|----------------------|
| 2018 | \$ 2,447,357 | \$ 929,787 | \$ 3,377,144 |
| 2019 | 2,578,898 | 807,512 | 3,386,410 |
| 2020 | 2,705,708 | 681,528 | 3,387,236 |
| 2021 | 2,232,697 | 564,404 | 2,797,101 |
| 2022 | 1,889,184 | 456,711 | 2,345,895 |
| 2023 - 2027 | 5,967,462 | 1,228,995 | 7,196,457 |
| 2028 - 2032 | 3,383,078 | 466,653 | 3,849,731 |
| 2033 - 2034 | <u>915,000</u> | <u>44,850</u> | <u>989,850</u> |
| Total | \$ <u>22,119,384</u> | \$ <u>5,180,440</u> | \$ <u>27,299,824</u> |

In September 2015, the County issued \$60,155,000 in general obligation bonds which consisted of \$15,185,000 of 2015 Series A, \$14,520,000 of 2015 Series B bonds, \$6,965,000 in 2015 Series C bonds and \$23,485,000 in 2015 Series D bonds. The proceeds of the issuance were used to prepay the County's outstanding loan from the United States Department of Agriculture, refund all of the outstanding Series 2005 bonds and to defease and advance refund the County's Series 2008 bonds. Consequently, the Series 2005 bonds and the Series 2008 bonds were considered defeased and were removed from the County's and Departments' financial statements in 2016. This refunding was undertaken to reduce total debt service payments by approximately \$6,027,000 and resulted in an economic gain of approximately \$5,304,000. At June 30, 2017 and 2016, the County's and Departments' defeased bonds totaled \$25,590,000 and \$44,795,000, respectively.

NOTE 9 - NOTES PAYABLE

At June 30, 2017 and 2016, notes payable consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|---|----------------|----------------|
| Notes payable to State of Hawaii, Department of Health | | |
| Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.37%, and loan fee rate of 3.25%, maturing in 2029. | \$ 1,119,576 | \$ 1,210,648 |
| Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.00%, and loan fee rate of 3.25%, maturing in 2031. | <u>484,191</u> | <u>518,776</u> |
| Balance forward | \$ 1,603,767 | \$ 1,729,424 |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 9 - NOTES PAYABLE (Continued)

| | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|
| Notes payable to State of Hawaii, Department of Health (Continued) | | |
| Balance carried forward | \$ 1,603,767 | \$ 1,729,424 |
| Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.35%, and loan fee rate of 3.25%, maturing in 2032. | 2,597,282 | 2,771,600 |
| Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.00%, and loan fee rate of 3.25%, maturing in 2032. | 847,145 | 905,569 |
| 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. | 187,944 | 199,510 |
| 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. | 1,745,402 | 1,846,775 |
| 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. | 706,401 | 746,910 |
| 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. | <u>6,599,623</u> | <u>7,012,100</u> |
| Balance forward | \$ 14,287,564 | \$ 15,211,888 |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 9 - NOTES PAYABLE (Continued)

| | <u>2017</u> | <u>2016</u> |
|---|---------------|---------------|
| Notes payable to State of Hawaii, Department of Health (Continued) | | |
| Balance carried forward | \$ 14,287,564 | \$ 15,211,888 |
| Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.50%, and loan fee rate of 1.00%, maturing in 2034. | 3,671,885 | 3,884,885 |
| 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. | 1,774,529 | 1,742,051 |
| 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. | 636,961 | 641,313 |
| 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. | 694,199 | 637,205 |
| 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. | 134,743 | 142,217 |
| 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. | 179,179 | -- |
| Balance forward | \$ 21,379,060 | \$ 22,259,559 |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 9 - NOTES PAYABLE (Continued)

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|--------------------------------|
| Notes payable to State of Hawaii, Department of Health (Continued) | | |
| Balance carried forward | \$ 21,379,060 | \$ 22,259,559 |
| 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. | 2,081,786 | -- |
| 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 2038. | 1,078,530 | -- |
| 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. | 485,388 | -- |
| 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>4,143,661</u> | <u> </u> -- |
| | 29,168,425 | 22,259,559 |
| Less current maturities | <u>(1,318,665)</u> | <u>(1,301,828)</u> |
| | \$ <u>27,849,760</u> | \$ <u>20,957,731</u> |

As of June 30, 2017, future principal and interest payments for notes payables are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|-----------------------------|----------------------------|-----------------------------|
| 2018 | \$ 1,318,665 | \$ 500,184 | \$ 1,818,849 |
| 2019 | 1,408,727 | 482,157 | 1,890,884 |
| 2020 | 1,597,058 | 453,835 | 2,050,893 |
| 2021 | 1,702,522 | 422,942 | 2,125,464 |
| 2022 | 1,711,829 | 391,640 | 2,103,469 |
| 2023 - 2027 | 8,703,298 | 1,481,466 | 10,184,764 |
| 2028 - 2032 | 8,509,212 | 683,882 | 9,193,094 |
| 2033 - 2037 | 3,530,404 | 148,967 | 3,679,371 |
| Thereafter | <u>686,710</u> | <u>8,723</u> | <u>695,433</u> |
| Total | \$ <u>29,168,425</u> | \$ <u>4,573,796</u> | \$ <u>33,742,221</u> |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS

Pensions

Pension Plan Description - Generally, all full-time employees of the State and counties are required to be members of the Employee Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS website: <http://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%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

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 ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

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 ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the 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 5 years of credited service are eligible to retire at age 55.

Police officers 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.

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 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 ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Contributory Class for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60. Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with ten 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 ten 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. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police officers and firefighters 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. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving 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, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

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 ten 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 ten 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 with 25 years of credited service at age 55.

Disability and Death Benefits - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten 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.

Plan Membership

At June 30, 2016 and 2015, ERS membership consisted of:

| | 2016 | 2015 |
|---|---------|---------|
| Inactive employees or their beneficiaries currently receiving benefits | 45,506 | 44,283 |
| Inactive employees entitled to but not yet receiving benefits | 22,295 | 21,253 |
| Active employees | 67,377 | 67,310 |
| Total | 135,178 | 132,846 |

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. The contribution rates for fiscal years ended June 30, 2017 and 2016 were 25.00% for police officers and firefighters, and 17.00% for all other employees. For fiscal years ended June 30, 2017 and 2016, contributions to the pension plan from the Department were \$2,085,968 and \$2,023,843, respectively.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police officers and firefighters increases to 28.00% on July 1, 2017; 31.00% on July 1, 2018; 36.00% on July 1, 2019; and 41.00% on July 1, 2020 and the rate for all other employees increases to 18.00% on July 1, 2017; 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% 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, except for police officers and firefighters who 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, 2017 and 2016, the Department reported a liability of \$39,134,359 and \$26,679,011, respectively, for its proportionate share of the net pension liability of the County. The net pension liability was measured as of June 30, 2016 and 2015, 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 projected contributions of the County. At June 30, 2016 and 2015, the Department's proportion of the County's proportion was 6.6063% and 6.9954% which was a decrease of 0.3891% from its proportion measured at June 30, 2015 and a decrease of 0.1720% from its proportion measured as of June 30, 2014.

There were significant changes in actuarial assumptions effective June 30, 2016 based on the Five-Year Experience Study report dated July 5, 2016 that resulted in a significant increase in the measurement of the total pension liability. Primary drivers for the increase include a decrease in the investment return assumption and discount rate from 7.65% as of June 30, 2015 to 7.00% as of June 30, 2016; and a decrease in the mortality assumptions for longer life expectancy and an explicit assumption for continued future mortality improvement (generational approach).

There were no other changes between the measurement date, June 30, 2016, and the reporting date, June 30, 2017, 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, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

For the fiscal years ended June 30, 2017 and 2016, the Department recognized pension expense of \$5,155,964 and \$3,079,830, respectively. At June 30, 2017 and 2016, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>June 30, 2017</u> | | <u>June 30, 2016 (as restated)</u> | |
|--|---|--|---|--|
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Differences between expected and actual experience | \$ 773,969 | \$ (578,453) | \$ 249,155 | \$ (752,676) |
| Net difference between projected and actual earnings on pension plan investments | 2,370,016 | -- | -- | (892,574) |
| Changes in proportion and difference between Department contributions and proportionate share of contributions | 456,878 | (711,417) | 583,007 | (361,368) |
| Changes of assumptions | 7,283,499 | -- | 634,899 | -- |
| Department contributions subsequent to the measurement date | <u>2,085,968</u> | <u>--</u> | <u>2,023,843</u> | <u>--</u> |
| | <u>\$ 12,970,330</u> | <u>\$ (1,289,870)</u> | <u>\$ 3,490,904</u> | <u>\$ (2,006,618)</u> |

The \$2,085,968 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|---------------------|
| 2018 | \$ 1,847,167 |
| 2019 | 1,847,167 |
| 2020 | 2,563,994 |
| 2021 | 2,224,192 |
| 2022 | <u>1,111,972</u> |
| Total | \$ <u>9,594,492</u> |

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | <u>2016</u> | <u>2015</u> |
|--|----------------|-----------------|
| Inflation rate | 2.50% | 3.00% |
| Payroll growth rate | 3.50% | 3.50% |
| Investment rate of return, including inflation | 7.00% | 7.65% |
| Salary increases, including inflation | | |
| Police and fire employees | 5.00% to 7.00% | 5.00% to 19.00% |
| General employees | 3.50% to 6.50% | 4.00% to 8.00% |
| Teachers | 3.75% to 5.75% | 4.50% to 8.50% |

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

The actuarial assumptions used in the June 30, 2016 and 2015 valuation were based on the most recent experience studies dated July 5, 2016 and December 20, 2010, respectively. Between experience studies, the Board of Trustees of the Employees' Retirement System of the State of Hawaii elected to lower the investment return assumption effective with the June 30, 2015 valuation.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | 2016 | | 2015 | |
|----------------------|-------------------|---|-------------------|--|
| | Target Allocation | Long-Term Expected Geometric Rate of Return | Target Allocation | Long-Term Expected Arithmetic Rate of Return |
| Broad growth | 63.00% | 8.35% | -- | -- |
| Crisis risk offset | 20.00% | 5.50% | -- | -- |
| Real return | 10.00% | 6.15% | 5.00% * | 6.70% |
| Principal protection | 7.00% | 2.20% | -- | -- |
| Domestic equity | -- | -- | 30.00% | 8.50% |
| International equity | -- | -- | 26.00% | 9.00% |
| Total fixed-income | -- | -- | 20.00% | 3.10% |
| Real estate | -- | -- | 7.00% * | 9.20% |
| Private equity | -- | -- | 7.00% * | 11.90% |
| Covered calls | -- | -- | 5.00% | 7.70% |
| | <u>100.00%</u> | | <u>100.00%</u> | |

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

Discount Rate - The discount rate used to measure the net pension liability at June 30, 2017 and 2016 was 7.00% and 7.65%, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the County will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

| | June 30, 2017 | | |
|---|------------------------|--------------------------|------------------------|
| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
| Department's proportionate share of the net pension liability | \$ <u>30,202,710</u> | \$ <u>39,134,359</u> | \$ <u>17,455,160</u> |
| | June 30, 2016 | | |
| | 1% Decrease (6.65%) | Discount Rate (7.65%) | 1% Increase (8.65%) |
| Department's proportionate share of the net pension liability | \$ <u>30,958,227</u> | \$ <u>26,679,011</u> | \$ <u>17,891,799</u> |

Pension Plan Fiduciary Net Position - 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 <http://www.ers.ehawaii.gov>.

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

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the County, pursuant to HRS Chapter 87A, is a participating employer in an agent multiple-employer defined benefit plan providing certain health care and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to provide single delivery system of health benefits for state and county workers, retirees and their dependents.

For employees hired before July 1, 1996, the County pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the County makes no contributions. For those retiring with at least ten 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 employees retiring with at least 25 years of service, the County pays 100% of the monthly contribution. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 2001, and who retire with fewer than ten years of service, the County makes no contributions. For those retiring with at least ten 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 employees retiring with at least 25 years of service, the County pays 100% of the base monthly contribution. Retirees can elect family coverage, but must pay the difference.

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

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the County as a whole and are not separately computed for the individual County departments and agencies such as the Department. The County allocates the ARC to the various departments and agencies based upon a systematic methodology. The Department's contributions paid to the County for the fiscal years ended June 30, 2017 and 2016 was \$1,210,084 and \$1,741,584, respectively, which equaled the Department's allocated ARC for postemployment health care and life insurance benefits.

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

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

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 10 - EMPLOYEE BENEFIT PLANS (Continued)

Deferred Compensation Plan

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

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

NOTE 11 - SICK LEAVE

Accrued sick leave aggregated to approximately \$5.4 million and \$5.3 million as of June 30, 2017 and 2016. Sick leave can accumulate at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a County employee who is vested in the retirement system and retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS.

NOTE 12 - RISK MANAGEMENT

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

NOTE 13 - ADOPTION OF NEW ACCOUNTING PRINCIPLE

The Department has adopted certain requirements of GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASBS 82), which are effective for reporting periods beginning after June 15, 2016. The adoption of GASBS 82 resulted in the reclassification of payments made by the Department to satisfy employee (plan member) contribution requirements that were previously deferred in the period for which the contributions were assessed and recorded as expenses in the subsequent fiscal year. These changes have been applied retroactively by restating the financial statements of the Department as of June 30, 2016.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016**

NOTE 13 - ADOPTION OF NEW ACCOUNTING PRINCIPLE (Continued)

For the fiscal year ended June 30, 2016, the effect of the change reduced beginning net position by \$628,784 and decreased the change in net position for the fiscal year ended June 30, 2016 by \$193,821. As of June 30, 2016, deferred outflows of resources related to pensions and net position both decreased by \$822,605.

SUPPLEMENTARY INFORMATION

**Department of Water Supply
County of Maui
SCHEDULE I - SCHEDULE OF CAPITAL ASSETS
June 30, 2017**

| Description | Balance | Additions | Retirements | Balance | Accumulated | Additions | Retirements | Accumulated |
|--------------------------------------|----------------|---------------|-------------|----------------|----------------|---------------|-------------|----------------|
| | June 30, 2016 | and Transfers | | June 30, 2017 | Depreciation | | | Depreciation |
| | | | | | June 30, 2016 | | | June 30, 2017 |
| Land | \$ 7,347,248 | \$ 557,811 | \$ -- | \$ 7,905,059 | \$ -- | \$ -- | \$ -- | \$ -- |
| Source of Supply Structures | 1,843,362 | -- | -- | 1,843,362 | 384,335 | 37,853 | -- | 422,188 |
| Collecting and Impounding Reservoirs | 4,251,684 | -- | -- | 4,251,684 | 3,553,899 | 53,716 | -- | 3,607,615 |
| Wells & Springs | 16,963,077 | 3,868,333 | -- | 20,831,410 | 3,553,684 | 379,543 | -- | 3,933,227 |
| Power & Pumping Structures | 8,928,834 | 8,935,267 | -- | 17,864,101 | 1,580,954 | 250,123 | -- | 1,831,077 |
| Purification Buildings | 34,417,534 | -- | -- | 34,417,534 | 29,588,494 | 757,788 | -- | 30,346,282 |
| Distribution Reservoirs | 73,877,484 | 4,164,431 | -- | 78,041,915 | 27,239,709 | 1,975,853 | -- | 29,215,562 |
| Office Building | 1,672,930 | -- | -- | 1,672,930 | 1,134,645 | 32,702 | -- | 1,167,347 |
| Field Operation Building | 1,072,693 | -- | -- | 1,072,693 | 830,436 | 18,978 | -- | 849,414 |
| Utility Plant - Unclassified | 591,079 | -- | -- | 591,079 | 578,521 | 4,021 | -- | 582,542 |
| Electric Pumping Equipment | 29,374,136 | 2,999,152 | -- | 32,373,288 | 22,246,145 | 1,244,815 | -- | 23,490,960 |
| Other Power Pumping Equipment | 2,201,573 | 507,200 | -- | 2,708,773 | 1,762,929 | 249,074 | -- | 2,012,003 |
| Purification System - Chlorinators | 3,136,099 | -- | -- | 3,136,099 | 2,170,928 | 267,678 | -- | 2,438,606 |
| Purification System - Filter Plants | 54,918,359 | -- | -- | 54,918,359 | 41,613,740 | 1,277,064 | -- | 42,890,804 |
| Transmission & Distribution Mains | 289,025,746 | 7,179,845 | -- | 296,205,591 | 118,256,809 | 6,508,819 | -- | 124,765,628 |
| Service Laterals | 3,977,396 | 84,095 | -- | 4,061,491 | 2,227,315 | 138,506 | -- | 2,365,821 |
| Meters | 8,771,825 | 53,183 | -- | 8,825,008 | 4,689,124 | 393,609 | -- | 5,082,733 |
| Office Furniture & Equipment | 54,155 | -- | -- | 54,155 | 27,617 | 2,911 | -- | 30,528 |
| Stores Equipment | 237,625 | -- | -- | 237,625 | 99,426 | 5,276 | -- | 104,702 |
| Shop Equipment | 72,674 | -- | -- | 72,674 | 62,220 | 1,746 | -- | 63,966 |
| Laboratory Equipment | 487,807 | 5,529 | -- | 493,336 | 288,814 | 20,718 | -- | 309,532 |
| Work Equipment | 2,456,759 | 13,724 | -- | 2,470,483 | 1,363,414 | 109,441 | -- | 1,472,855 |
| Communication Equipment | 1,688,747 | -- | -- | 1,688,747 | 1,061,689 | 85,760 | -- | 1,147,449 |
| Meter Boxes | 291,058 | -- | -- | 291,058 | 290,531 | 431 | -- | 290,962 |
| Hydrants | 10,635,011 | 184,950 | -- | 10,819,961 | 3,954,382 | 211,149 | -- | 4,165,531 |
| Standpipes | 243,444 | 2,834 | -- | 246,278 | 203,862 | 4,691 | -- | 208,553 |
| | 558,538,339 | 28,556,354 | -- | 587,094,693 | 268,763,622 | 14,032,265 | -- | 282,795,887 |
| Office Machines | 746,383 | 25,233 | (18,109) | 753,507 | 659,536 | 29,409 | (18,109) | 670,836 |
| Transportation Equipment | 5,336,092 | 39,646 | -- | 5,375,738 | 4,109,760 | 344,569 | -- | 4,454,329 |
| Total Capital Assets (1) | \$ 564,620,814 | \$ 28,621,233 | \$ (18,109) | \$ 593,223,938 | \$ 273,532,918 | \$ 14,406,243 | \$ (18,109) | \$ 287,921,052 |
| Revenue Fund | | \$ 477,058 | | | | | | |
| Construction in Aid | | 4,019,035 | | | | | | |
| Construction in Aid - Direct | | 1,154,796 | | | | | | |
| Capital Replacement Fund | | 8,660,771 | | | | | | |
| State Revolving Fund | | 10,192,455 | | | | | | |
| Water System Development Fund | | 4,117,118 | | | | | | |
| | | \$ 28,621,233 | | | | | | |

(1) Excludes construction in progress.

**Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS
June 30, 2017**

| County of Maui General Obligation Bonds | Fiscal Year | Coupon Interest Rate | Bond Dated | Maturing Serially From | Call Dates | Authorized and Issued | Outstanding June 30, 2017 | Payable Within One Year |
|--|------------------------|-------------------------------------|-------------------|-----------------------------------|-------------------|----------------------------------|--------------------------------------|--|
| G.O. Refunding Bonds, 2008 Series A (a) | | | | | | | | |
| | 2018 | 3.500 | 7/1/2008 | 7/1/2017 | Noncallable | \$ 273,458 | \$ 273,458 | \$ 273,458 |
| Total 2008 Series A Issue | | | | | | <u>273,458</u> | <u>273,458</u> | <u>273,458</u> |
| G.O. Refunding Bonds, 2010 Series B (b) | | | | | | | | |
| | 2018 | 5.000 | 12/1/2010 | 6/1/2018 | Noncallable | \$ 382,667 | \$ 382,667 | \$ 382,667 |
| | 2019 | 4.000 | 12/1/2010 | 6/1/2019 | Noncallable | 401,441 | 401,441 | -- |
| | 2020 | 4.000 | 12/1/2010 | 6/1/2020 | Noncallable | 417,419 | 417,419 | -- |
| | 2021 | 4.000 | 12/1/2010 | 6/1/2021 | 6/1/2020 | <u>434,195</u> | <u>434,195</u> | -- |
| Total 2010 Series B Issue | | | | | | <u>1,635,722</u> | <u>1,635,722</u> | <u>382,667</u> |
| G.O. Refunding Bonds, 2012 Series B (c) | | | | | | | | |
| | 2018 | 5.000 | 11/1/2012 | 6/1/2018 | Noncallable | \$ 169,295 | \$ 169,295 | \$ 169,295 |
| | 2019 | 5.000 | 11/1/2012 | 6/1/2019 | Noncallable | 178,002 | 178,002 | -- |
| | 2020 | 5.000 | 11/1/2012 | 6/1/2020 | Noncallable | 186,708 | 186,708 | -- |
| | 2021 | 5.000 | 11/1/2012 | 6/1/2021 | Noncallable | 196,382 | 196,382 | -- |
| | 2022 | 5.000 | 11/1/2012 | 6/1/2022 | Noncallable | 206,056 | 206,056 | -- |
| | 2023 | 4.000 | 11/1/2012 | 6/1/2023 | Noncallable | 216,214 | 216,214 | -- |
| | 2024 | 2.125 | 11/1/2012 | 6/1/2024 | 6/1/2023 | 224,921 | 224,921 | -- |
| | 2025 | 3.000 | 11/1/2012 | 6/1/2025 | 6/1/2023 | 229,758 | 229,758 | -- |
| | 2026 | 3.000 | 11/1/2012 | 6/1/2026 | 6/1/2023 | 236,529 | 236,529 | -- |
| | 2027 | 3.000 | 11/1/2012 | 6/1/2027 | 6/1/2023 | 243,785 | 243,785 | -- |
| | 2028 | 3.000 | 11/1/2012 | 6/1/2028 | 6/1/2023 | 251,040 | 251,040 | -- |
| | 2029 | 3.000 | 11/1/2012 | 6/1/2029 | 6/1/2023 | 258,779 | 258,779 | -- |
| | 2030 | 3.000 | 11/1/2012 | 6/1/2030 | 6/1/2023 | 266,519 | 266,519 | -- |
| | 2031 | 3.000 | 11/1/2012 | 6/1/2031 | 6/1/2023 | 274,258 | 274,258 | -- |
| | 2032 | 3.000 | 11/1/2012 | 6/1/2032 | 6/1/2023 | <u>282,481</u> | <u>282,481</u> | -- |
| Total 2012 Series B Issue | | | | | | <u>\$ 3,420,727</u> | <u>\$ 3,420,727</u> | <u>\$ 169,295</u> |

**Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS (Continued)
June 30, 2017**

| County of Maui General Obligation Bonds | Fiscal Year | Coupon Interest Rate | Bond Dated | Maturing Serially From | Call Dates | Authorized and Issued | Outstanding June 30, 2017 | Payable Within One Year |
|--|----------------|----------------------------|------------|---------------------------|-------------|--------------------------|------------------------------|-------------------------------|
| G.O. Refunding Bonds, 2012 Series C (d) | | | | | | | | |
| | 2018 | 5.000 | 11/1/2012 | 6/1/2018 | Noncallable | \$ 850,000 | \$ 850,000 | \$ 850,000 |
| | 2019 | 5.000 | 11/1/2012 | 6/1/2019 | Noncallable | 895,000 | 895,000 | -- |
| | 2020 | 5.000 | 11/1/2012 | 6/1/2020 | Noncallable | 940,000 | 940,000 | -- |
| | 2021 | 5.000 | 11/1/2012 | 6/1/2021 | Noncallable | 985,000 | 985,000 | -- |
| | 2022 | 5.000 | 11/1/2012 | 6/1/2022 | Noncallable | 1,035,000 | 1,035,000 | -- |
| | 2023 | 4.000 | 11/1/2012 | 6/1/2023 | Noncallable | <u>1,090,000</u> | <u>1,090,000</u> | -- |
| Total 2012 Series C Issue | | | | | | <u>5,795,000</u> | <u>5,795,000</u> | <u>850,000</u> |
| G.O. Refunding Bonds, 2014 Series C (e) | | | | | | | | |
| | 2018 | 5.000 | 12/1/2014 | 6/1/2018 | Noncallable | \$ 250,000 | \$ 250,000 | \$ 250,000 |
| | 2019 | 5.000 | 12/1/2014 | 6/1/2019 | Noncallable | 260,000 | 260,000 | -- |
| | 2020 | 5.000 | 12/1/2014 | 6/1/2020 | Noncallable | 275,000 | 275,000 | -- |
| | 2021 | 5.000 | 12/1/2014 | 6/1/2021 | Noncallable | 290,000 | 290,000 | -- |
| | 2022 | 5.000 | 12/1/2014 | 6/1/2022 | Noncallable | 305,000 | 305,000 | -- |
| | 2023 | 5.000 | 12/1/2014 | 6/1/2023 | Noncallable | 320,000 | 320,000 | -- |
| | 2024 | 5.000 | 12/1/2014 | 6/1/2024 | Noncallable | 335,000 | 335,000 | -- |
| | 2025 | 3.000 | 12/1/2014 | 6/1/2025 | 6/1/2024 | 350,000 | 350,000 | -- |
| | 2026 | 3.000 | 12/1/2014 | 6/1/2026 | 6/1/2024 | 360,000 | 360,000 | -- |
| | 2027 | 4.000 | 12/1/2014 | 6/1/2027 | 6/1/2024 | 370,000 | 370,000 | -- |
| | 2028 | 3.000 | 12/1/2014 | 6/1/2028 | 6/1/2024 | 385,000 | 385,000 | -- |
| | 2029 | 3.000 | 12/1/2014 | 6/1/2029 | 6/1/2024 | 400,000 | 400,000 | -- |
| | 2030 | 3.000 | 12/1/2014 | 6/1/2030 | 6/1/2024 | 410,000 | 410,000 | -- |
| | 2031 | 3.125 | 12/1/2014 | 6/1/2031 | 6/1/2024 | 420,000 | 420,000 | -- |
| | 2032 | 3.250 | 12/1/2014 | 6/1/2032 | 6/1/2024 | 435,000 | 435,000 | -- |
| | 2033 | 3.250 | 12/1/2014 | 6/1/2033 | 6/1/2024 | 450,000 | 450,000 | -- |
| | 2034 | 3.250 | 12/1/2014 | 6/1/2034 | 6/1/2024 | <u>465,000</u> | <u>465,000</u> | -- |
| Total 2014 Series C Issue | | | | | | <u>\$ 6,080,000</u> | <u>\$ 6,080,000</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, 2017**

| County of Maui General Obligation Bonds | Fiscal Year | Coupon Interest Rate | Bond Dated | Maturing Serially From | Call Dates | Authorized and Issued | Outstanding June 30, 2017 | Payable Within One Year |
|--|----------------|----------------------------|------------|---------------------------|-------------|--------------------------|------------------------------|-------------------------------|
| G.O. Refunding Bonds, 2015 Series B (f) | | | | | | | | |
| | 2018 | 5.000 | 3/1/2016 | 9/1/2018 | Noncallable | \$ 521,937 | \$ 521,937 | \$ 521,937 |
| | 2019 | 5.000 | 3/1/2016 | 9/1/2019 | Noncallable | 547,960 | 547,960 | -- |
| | 2020 | 5.000 | 3/1/2016 | 9/1/2020 | Noncallable | <u>575,468</u> | <u>575,468</u> | <u>--</u> |
| Total 2015 Series B Issue | | | | | | <u>1,645,365</u> | <u>1,645,365</u> | <u>521,937</u> |
| G.O. Refunding Bonds, 2015 Series D (g) | | | | | | | | |
| | 2019 | 5.000 | 3/1/2016 | 9/1/2019 | Noncallable | \$ 296,496 | \$ 296,496 | \$ -- |
| | 2020 | 5.000 | 3/1/2016 | 9/1/2020 | Noncallable | 311,112 | 311,112 | -- |
| | 2021 | 5.000 | 3/1/2016 | 9/1/2021 | Noncallable | 327,120 | 327,120 | -- |
| | 2022 | 5.000 | 3/1/2016 | 9/1/2022 | Noncallable | 343,128 | 343,128 | -- |
| | 2023 | 5.000 | 3/1/2016 | 9/1/2023 | Noncallable | 360,528 | 360,528 | -- |
| | 2024 | 5.000 | 3/1/2016 | 9/1/2024 | Noncallable | 378,624 | 378,624 | -- |
| | 2025 | 5.000 | 3/1/2016 | 9/1/2025 | Noncallable | 397,416 | 397,416 | -- |
| | 2026 | 3.000 | 3/1/2016 | 9/1/2026 | 9/1/2025 | 416,904 | 416,904 | -- |
| | 2027 | 3.000 | 3/1/2016 | 9/1/2027 | 9/1/2025 | <u>437,784</u> | <u>437,784</u> | <u>--</u> |
| Total 2015 Series D Issue | | | | | | <u>3,269,112</u> | <u>3,269,112</u> | <u>--</u> |
| Total General Obligation Bonds | | | | | | \$ <u>22,119,384</u> | \$ <u>22,119,384</u> | \$ <u>2,447,357</u> |

**Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS (Continued)
June 30, 2017**

NOTES:

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