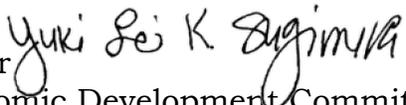


January 21, 2026

MEMO TO: BFED-20(11) File

F R O M: Yuki Lei K. Sugimura, Chair   
Budget, Finance, and Economic Development Committee

SUBJECT: **TRANSMITTAL OF INFORMATIONAL DOCUMENT RELATING TO ANNUAL COMPREHENSIVE FINANCIAL REPORT, SINGLE AUDIT REPORT, AND DEPARTMENT OF WATER SUPPLY'S FINANCIAL AUDIT REPORTS** (BFED-20(11))

The attached informational document pertains to Item 20(11) on the Committee's agenda.

bfed:ltr:020(11)afile02:kes

Attachment



**OFFICE OF THE COUNTY AUDITOR**

COUNTY OF MAUI  
2145 WELLS STREET, SUITE 303  
WAILUKU, MAUI, HAWAII 96793  
<http://www.mauicounty.gov/auditor>

January 13, 2026

The Honorable Alice L. Lee, Chair  
and Members of the Council  
County of Maui  
Wailuku, Hawaii 96793

RECEIVED  
2026 JAN 13 PM 3: 36  
OFFICE OF THE  
COUNTY CLERK

Dear Chair Lee and Members:

**SUBJECT: DEPARTMENT OF WATER SUPPLY FINANCIAL  
STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS FOR  
FISCAL YEAR ENDED JUNE 30, 2025**

My Office has received the Department of Water Supply Financial Statements and Supplementary Information with Independent Auditor's Reports for Fiscal Year Ended June 30, 2025, submitted by N&K CPAs, Inc., the County's contractor.

Transmitted are 19 bound 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".

LANCE T. TAGUCHI, CPA  
County Auditor

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Enclosure

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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS

Fiscal Year Ended June 30, 2025



**DEPARTMENT OF WATER SUPPLY  
COUNTY OF MAUI**

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**PART I**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Water Supply  
County of Maui

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County of Maui, State of Hawaii, as of and for the fiscal year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2025, and the changes in financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Emphasis of Matter

As discussed in Note 1, the financial statements of the Department present only the financial position and activities of the Department and do not purport to, and do not, present fairly the financial position of the County of Maui, State of Hawaii as of June 30, 2025, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 15, the Department adopted Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, during the fiscal year ended June 30, 2025. Implementation of GASB 101 required the Department to change its method of accounting for compensated absences and to restate the beginning net position as of July 1, 2024. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

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

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The supplemental schedules of capital assets and of long-term debt - general obligation bonds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the

schedules of capital assets and of long-term debt - general obligation bonds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2025 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

*N&K CPAs, Inc.*

Honolulu, Hawaii  
December 23, 2025

**Department of Water Supply  
County of Maui  
STATEMENT OF NET POSITION  
June 30, 2025**

**ASSETS**

Current assets

Equity in pooled cash and investments held in County Treasury	\$ 79,291,232
Restricted assets - equity in pooled cash and investments held in County Treasury	27,220,644
Customer receivables	
Billed	9,441,403
Less allowance for doubtful accounts	<u>(557,244)</u>
	8,884,159
Unbilled	<u>4,704,252</u>
Total customer receivables	<u>13,588,411</u>
Materials and supplies	1,935,642
Other current assets	<u>3,667</u>
Total current assets	<u>122,039,596</u>

Non-current assets

Restricted assets - equity in pooled cash and investments held in County Treasury	<u>43,722,226</u>
	<u>43,722,226</u>

Capital assets

Utility plant in service	721,856,808
Less accumulated depreciation	<u>(415,153,623)</u>
	306,703,185
Land	9,322,355
Construction work in progress	57,196,727
Lease asset	411,852
Less accumulated amortization	<u>(274,568)</u>
Total capital assets	<u>373,359,551</u>
Total non-current assets	<u>417,081,777</u>

**TOTAL ASSETS**

539,121,373

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources related to pensions	10,717,444
Deferred outflows of resources related to OPEB	3,092,712
Unamortized loss on advanced refunding	<u>18,998</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>13,829,154</u>

**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

\$ 552,950,527

See accompanying notes to financial statements.

**Department of Water Supply  
County of Maui  
STATEMENT OF NET POSITION (Continued)  
June 30, 2025**

**LIABILITIES**

Current liabilities

Payable from unrestricted current assets	
Bonds payable, current portion	\$ 1,493,221
Notes payable, current portion	2,852,979
Accounts payable	7,361,088
Compensated absences, current portion	1,667,352
Construction contracts payable, including retainages	1,093,784
Claims and judgments	121,569
Accrued interest payable	304,225
Customer advances for utility construction	602,516
Lease liability, current portion	76,108
Financed purchase, current portion	21,575
	15,594,417

Payable from restricted assets

Construction contracts payable, including retainages	2,387,261
Due to other fund, current portion	6,505,233
Customer deposits	90,610
Refundable advances	2,280,779
	11,263,883

Total current liabilities 26,858,300

Non-current liabilities

Bonds payable, non-current portion	12,263,718
Notes payable, non-current portion	32,969,851
Compensated absences, non-current portion	2,143,248
Net pension liability	48,998,778
Net OPEB liability	3,685,313
Due to other fund, non-current portion	16,122,448
Lease liability, non-current portion	81,704
Financed purchase, non-current portion	734,821
	116,999,881

Payable from restricted assets

Customer deposits	6,544,766
	6,544,766

Total non-current liabilities 123,544,647

**TOTAL LIABILITIES** 150,402,947

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources related to pensions	2,483,452
Deferred inflows of resources related to OPEB	6,306,338
	8,789,790

**TOTAL DEFERRED INFLOWS OF RESOURCES**

**NET POSITION**

Net investment in capital assets	322,575,530
Restricted	38,578,967
Unrestricted	32,603,293
	393,757,790

**TOTAL NET POSITION** 393,757,790

**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES  
AND NET POSITION**

\$ 552,950,527

See accompanying notes to financial statements.

**Department of Water Supply  
County of Maui  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Fiscal Year Ended June 30, 2025**

**OPERATING REVENUES**

Water sales	\$ 81,444,411
Other revenues	<u>1,029,144</u>
Total operating revenues	<u>82,473,555</u>

**OPERATING EXPENSES**

Administrative and general	20,205,886
Power and pumping	18,323,791
Depreciation and amortization	16,876,258
Transmission and distribution	15,187,456
Purification	8,929,971
Customers' accounting and collection	2,238,156
Source of supply	<u>1,057,735</u>
Total operating expenses	<u>82,819,253</u>
Operating loss	<u>(345,698)</u>

**NONOPERATING REVENUES (EXPENSES)**

Interest and investment income	6,319,831
Interest expense, net of amortization of bond premiums of \$177,261	(884,010)
Forgiveness of debt	763,221
Other income	<u>301,703</u>
Total nonoperating revenues	<u>6,500,745</u>
Income before capital contributions and transfers	6,155,047
Capital contributions	11,996,114
Transfers in	<u>929,319</u>
Change in net position	19,080,480

**NET POSITION**

Beginning of fiscal year, as previously reported	375,980,986
Restatement due to change in accounting principle	<u>(1,303,676)</u>
Beginning of fiscal year, as restated	<u>374,677,310</u>
End of fiscal year	<u>\$ 393,757,790</u>

See accompanying notes to financial statements.

**Department of Water Supply  
County of Maui  
STATEMENT OF CASH FLOWS  
Fiscal Year Ended June 30, 2025**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers and others	\$ 73,058,475
Payments to suppliers for goods and services	(39,004,164)
Payments to employees for services	(27,637,881)
Refunds of utility construction advances	<u>(387,829)</u>
Net cash provided by operating activities	<u>6,028,601</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Cash paid for acquisition of construction of capital assets	(22,675,845)
Principal paid on lease liability	(70,799)
Principal paid on financed purchase	(156,863)
Principal paid on bonds and notes payable	(4,236,689)
Proceeds from bonds and notes payable	1,278,033
Cash received from capital contributions and other	8,298,838
Interest paid on bonds and notes payable	(1,073,493)
Transfers from other funds	<u>23,557,000</u>
Net cash provided by capital and related financing activities	<u>4,920,182</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and investment income received from investments	<u>6,319,831</u>
Net cash provided by investing activities	<u>6,319,831</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	17,268,614
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of fiscal year	<u>132,965,488</u>
End of fiscal year	\$ <u><u>150,234,102</u></u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS * TO THE STATEMENTS OF NET POSITION</b>	
Unrestricted	\$ 79,291,232
Restricted	<u>70,942,870</u>
	\$ <u><u>150,234,102</u></u>

\* Includes all equity in pooled cash and investments held in County Treasury.

See accompanying notes to financial statements.

**Department of Water Supply  
County of Maui  
STATEMENT OF CASH FLOWS (Continued)  
Fiscal Year Ended June 30, 2025**

**RECONCILIATION OF OPERATING LOSS TO**

**NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$	(345,698)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		16,876,258
Provision for doubtful accounts		489,028
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Customer receivables		(4,199,869)
Materials and supplies		619,667
Other current assets		2,757
Deferred outflows of resources related to pensions		(58,443)
Deferred outflows of resources related to OPEB		2,379,767
Accounts and construction contracts payable		1,161,288
Advanced collections		(5,762,157)
Claims and judgments		(42,754)
Compensated absences		320,644
Other liabilities and deposits		(329,911)
Net pension liability		(913,010)
Net OPEB liability		(6,293,254)
Deferred inflows of resources related to pensions		1,476,811
Deferred inflows of resources related to OPEB		<u>647,477</u>
Net cash provided by operating activities	\$	<u><u>6,028,601</u></u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital contributions	\$	3,998,979
Forgiveness of debt	\$	763,221
Amortization of deferred loss on refunding	\$	16,284
Amortization of bond premium	\$	177,261

See accompanying notes to financial statements.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- (1) **Organization** - The Department of Water Supply (the Department) operates as a proprietary fund in the County of Maui, State of Hawaii (the County), to develop adequate water sources, storage, and transmission for both urban and agricultural uses for the County. The County Charter, as amended, provides the following:
- The Department is a regular County of Maui agency subject to the Mayor's executive management and Maui County Council's (Council) legislative oversight.
  - The current Board of Directors of the Department is an advisory body (with power to recommend budget proposals and rate adjustments).
  - The Mayor has the power to appoint the Director (with approval of Council).
  - The Department has the responsibility to survey public and private water sources.
  - The Department must prepare and annually update a long-range capital improvement plan (subject to Council approval) and implement such approved plans. The Council has the power to issue general obligation bonds and provide appropriations for capital improvements of the water system.
- (2) **Financial Statement Presentation** - The Department is a proprietary fund of the County (the primary government). The accompanying financial statements present only the financial position and activities of the Department, and do not purport to, and do not, present the financial position of the County, the changes in its financial position, or, where applicable, its cash flows in accordance with accounting principles generally accepted in the United States of America (GAAP).
- (3) **Measurement Focus and Basis of Accounting** - The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
- (4) **Use of Estimates** - The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances of receivables, accrued workers' compensation, compensated absences, and pension and post-retirement benefits. Actual results could differ from those estimates.
- (5) **Cash Equivalents** - For purposes of the statement 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, 2025**

**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.
- (7) **Customer Receivables and Allowance for Doubtful Accounts** - Customer receivables are reported 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 and the length of time individual receivables are past due.
- (8) **Materials and Supplies** - Materials and supplies are stated at weighted average cost. 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 to use, are recorded as restricted assets.
- (10) **Capital Assets** - Utility plant in service is stated at cost and includes contributions by governmental agencies, private developers, and customers at their cost or estimated cost. Capital assets include individual assets or group of similar assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year.

Major replacements, renewals and betterments are capitalized. Maintenance, repairs, and replacements that do not improve or extend lives of the assets are charged to expense. Gains or losses resulting from the sale, retirement, or disposal of utility plant are charged or credited to operations.

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

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

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

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

The Department leases an office space located in the One Main Plaza Building at 250 South High Street, which has a rental area of approximately 2,808 square feet. The Department initially measured the lease liability and right-to-use lease asset using base rent and excluded from its calculation variable payments such as those based on the Department's proportionate share of the underlying asset's operating expenses.

- (11) ***Debt Premium and Discounts*** - Premium and discounts arising from the issuance of debt are amortized over the life of the bonds. Amortization of debt premiums is recorded as a reduction of interest expense.
- (12) ***Deferred Amounts on Advance Refunding*** - For advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the carrying amount of the old debt is deferred. This amount is amortized as a component of interest expense using the bonds outstanding method over the remaining life of the old debt or the life of the new, whichever is shorter. The amount deferred is reported as a deferred inflow or outflow of resources.
- (13) ***Compensated Absences*** - Employees earn vacation benefits at one and three-quarters working days for each month of service. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. Unused vacation benefits are converted to pay upon termination of employment. Accrued vacation totaled \$2,152,802 as of June 30, 2025.

Employees earn sick leave at one and three-quarters working days for each month of service. Sick leave may accumulate without limit. Unused sick leave is forfeited upon separation from government service, however, upon retirement, certain employees with a minimum of 60 days of accumulated sick leave may apply such leave toward service credit for the purpose of computing retirement benefits. Accrued sick leave totaled \$1,427,476 as of June 30, 2025.

Employees earn compensatory time off (CTO) at the rate of one and a half hours for each hour of overtime worked. Unused compensatory time off is converted to pay upon termination of employment. Accrued CTO totaled \$230,322 as of June 30, 2025.

- (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.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

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

(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 amortization, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at fiscal year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of restrictions 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 and amortization on capital assets.

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

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

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

- (17) **Water System Development Fee** - A water system development fee is levied against all new developments requiring water from the Department's systems, except those developments that have paid for and installed a complete water system, including source, transmission, and daily storage facilities. The amounts collected, net of costs incurred for water credits used to acquire additional water supply, are recorded as capital contributions. The amounts received are recorded as capital contributions in the accompanying statement of revenues, expenses, and changes in net position.
- (18) **Capital Contributions** - The Department receives Federal and State of Hawaii grants to pay for portions of construction costs related to various capital projects. The Department also receives development fees and dedications of infrastructure assets for various developments. The amounts received are recorded as capital contributions in the accompanying statement 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 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 fair value.
- (20) **Postemployment Benefits Other Than Pensions (OPEB)** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from EUTF's fiduciary net position have been determined on the same basis as they are reported by EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.
- (21) **New Accounting Pronouncements** - The Governmental Accounting Standards Board (GASB) issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

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

not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. This Statement requires that a liability for certain types of compensated absences - including parental leave, military leave, and jury duty leave - not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management has adopted the applicable requirements of the new standard as presented in the Department's financial statements.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**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, 2025, the amounts reported on the statement 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 \$150,234,102.

**County’s Investment Policy**

The County’s investment policy conforms with the State of Hawaii statutes (Chapter 46, Section 50), which authorize the County to invest in obligations of the U.S. Treasury and U.S. government agencies, negotiable time certificates of deposits, municipal securities, auction rate securities collateralized by student loans maintaining Triple-A rating, bank repurchase agreements, commercial paper, bankers’ acceptances, and money market funds.

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

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

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

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

**Credit Quality Risk** - Credit quality risk is the risk that an issuer or counterparty to an investment will not fulfill its obligation. The County’s investment policy limits investments in municipal securities, U.S. Treasury securities, negotiable time certificates of deposits, U.S. government agency obligations, repurchase agreements, commercial paper, bankers’ acceptances, money market funds, and auction rate securities collateralized by student loans maintaining Triple-A rating.

The bond ratings for the County’s investments in U.S. agency obligations (government sponsored enterprises) at June 30, 2025 was as follows:

	<u>Amount</u>
AA+	\$ 837,436,888
Not rated	<u>20,772,276</u>
	<u>\$ 858,209,164</u>

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributable to the magnitude of the County's investments in a single issuer or investment. The County diversifies its investments to minimize such risk and with the exception of U.S. Treasury securities, no more than 30% of the investment portfolio can be invested in a single type of security, single issuer, or financial institution.

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

Custodial credit risk for bank depository accounts is the risk that in the event of a bank failure, the County's deposits may not be returned. It is the County's policy to place its bank deposits with State of Hawaii high credit quality financial institutions that are able to meet the collateral requirements for the County's deposits. As of June 30, 2025, substantially all of the County's negotiable time certificates of deposits and cash deposits were insured and collateralized.

**Pooled Cash and Investments Held in County Treasury**

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

The Department's share of the County's cash and investment pool, as summarized in the tables below was approximately 13.5% at June 30, 2025.

As of June 30, 2025, the County and fiduciary fund's cash and investments was 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	0.61 - 3.82	\$ --	\$ 14,300,000	\$ --	\$ 10,000,000	\$ (768,473)	\$ 23,531,527
Federal Home Loan Bank Bank Notes	0.81 - 4.72	--	15,000,000	10,000,000	110,900,000	(5,244,040)	130,655,960
Federal Farm Credit Bank Notes	3.21 - 4.96	--	28,200,000	20,000,000	115,300,000	(1,366,310)	162,133,690
Federal Agricultural Mortgage Corporation Notes	0.88 - 1.77	--	21,200,000	--	--	(427,724)	20,772,276
Federal Home Loan Mortgage Corporation Notes	0.70 - 4.81	--	10,000,000	--	6,400,000	(349,064)	16,050,936
U.S. Treasury Notes	0.60 - 5.06	--	<u>44,800,000</u>	<u>97,000,000</u>	<u>367,650,000</u>	<u>(4,385,225)</u>	<u>505,064,775</u>
Total investments		\$ --	\$ <u>133,500,000</u>	\$ <u>127,000,000</u>	\$ <u>610,250,000</u>	\$ <u>(12,540,836)</u>	858,209,164
						Cash on hand and deposits	<u>252,725,432</u>
						Total equity in pooled cash and investments	\$ <u>1,110,934,596</u>

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Unrestricted equity in pooled cash and investments held in County Treasury at June 30, 2025 and include funds for the following purposes:

	Amount
Board-designated	
Capital improvements	\$ 24,149,038
Debt service	<u>2,214,855</u>
Total board-designated	26,363,893
Undesignated	<u>52,927,339</u>
Total	\$ <u><u>79,291,232</u></u>

At June 30, 2025, construction contract payables, including retentions, to be paid with board-designated funds was approximately \$1.1 million. Construction contract commitments as of June 30, 2025, to be paid with board-designated funds, aggregated approximately \$14.7 million.

Restricted equity in pooled cash and investments held in County Treasury consisted of the following at June 30, 2025:

	Amount
Water system development fee	\$ 22,881,034
General excise tax funds	22,627,681
State funds	11,983,339
Federal funds	3,287,615
Customer deposits	6,635,377
Bond funds	3,172,002
Special assessment fund for storage	273,829
Source development fund assessments	<u>81,993</u>
Total	\$ <u><u>70,942,870</u></u>

At June 30, 2025, construction voucher and contract payables, including retentions, to be paid with restricted assets was approximately \$2.4 million. Construction contract commitments as of June 30, 2025, to be paid with restricted assets, aggregated approximately \$16.3 million.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 3 - RESTRICTED NET POSITION**

At June 30, 2025, restricted net position consisted of the following:

	Amount
Water system development fee	\$ 22,881,034
Federal funds	3,287,615
Special assessment fund for storage	273,829
Source development fund assessments	81,993
Other restricted funds	12,054,496
Total	\$ 38,578,967

**NOTE 4 - CAPITAL CONTRIBUTIONS**

Capital contributions during the fiscal year ended June 30, 2025, was as follows:

	Amount
Dedication of infrastructure assets	\$ 3,998,979
Source development fund assessments	1,375,933
Grants	6,509,365
Other	111,837
Total	\$ 11,996,114

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity during the fiscal year ended June 30, 2025 was as follows:

	Balance July 1, 2024	Additions	Reductions/ Retirements	Balance June 30, 2025
Non-depreciable assets				
Land	\$ 8,868,809	\$ 453,546	\$ --	\$ 9,322,355
Construction work in progress	<u>47,537,710</u>	<u>18,023,225</u>	<u>(8,364,208)</u>	<u>57,196,727</u>
	<u>56,406,519</u>	<u>18,476,771</u>	<u>(8,364,208)</u>	<u>66,519,082</u>
Depreciable assets				
Buildings and systems	202,954,329	760,182	--	203,714,511
Machinery and equipment	489,400,169	14,590,392	--	503,990,561
Infrastructure	<u>12,940,049</u>	<u>1,211,687</u>	<u>--</u>	<u>14,151,736</u>
	<u>705,294,547</u>	<u>16,562,261</u>	<u>--</u>	<u>721,856,808</u>
Accumulated depreciation				
Buildings and systems	102,548,819	4,083,404	--	106,632,223
Machinery and equipment	289,662,493	12,457,956	--	302,120,449
Infrastructure	<u>6,134,695</u>	<u>266,256</u>	<u>--</u>	<u>6,400,951</u>
	<u>398,346,007</u>	<u>16,807,616</u>	<u>--</u>	<u>415,153,623</u>
Lease asset				
Office space	<u>411,852</u>	<u>--</u>	<u>--</u>	<u>411,852</u>
	<u>411,852</u>	<u>--</u>	<u>--</u>	<u>411,852</u>
Accumulated amortization				
Office space	<u>205,926</u>	<u>68,642</u>	<u>--</u>	<u>274,568</u>
	<u>205,926</u>	<u>68,642</u>	<u>--</u>	<u>274,568</u>
Total	<u>\$ 363,560,985</u>	<u>\$ 18,162,774</u>	<u>\$ (8,364,208)</u>	<u>\$ 373,359,551</u>

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 6 - LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities of the Department for the fiscal year ended June 30, 2025 was as follows:

	Balance July 1, 2024 As Restated	Additions	Reductions	Balance June 30, 2025	Due Within One Year
Bonds payable	\$ 15,367,161	\$ --	\$ 1,610,222	\$ 13,756,939	\$ 1,493,221
Notes payable from direct borrowings	38,111,746	1,278,033	3,566,949	35,822,830	2,852,979
Compensated absences	3,489,956	320,644 *	--	3,810,600	1,667,352
Claims and judgments	164,323	230,573	273,327	121,569	121,569
Due to other fund	--	23,557,000	929,319	22,627,681	6,505,233
Lease liability	228,611	--	70,799	157,812	76,108
Financed purchase	913,259	--	156,863	756,396	21,575
Total	<u>\$ 58,275,056</u>	<u>\$ 25,386,250</u>	<u>\$ 6,607,479</u>	<u>\$ 77,053,827</u>	<u>\$ 12,738,037</u>

\* Change in compensated absences liability is presented as a net change.

**NOTE 7 - BONDS PAYABLE**

At June 30, 2025, bonds payable consisted of the following:

	Amount
General Obligation Refunding Bonds, 2012 Series B, due in annual installments through 2032, interest payable semi-annually from 2.1% to 4.0%.	\$ 1,813,392
General Obligation Refunding Bonds, 2014 Series C, due in annual installments through 2034, interest payable semi-annually from 3.0% to 5.0%.	3,695,000
General Obligation Refunding Bonds, 2015 Series D, due in annual installments through 2027, interest payable semi-annually from 3.0% to 5.0%.	854,688
General Obligation Refunding Bonds, 2018 Series C, due in annual installments through 2032, interest payable semi-annually from 3.0% to 5.0%.	2,475,000
General Obligation Refunding Bonds, 2020 Series B, due in annual installments through 2030, interest payable semi-annually at 5.0%	221,323
General Obligation Refunding Bonds, 2022 Series B, due in annual installments through 2042, interest payable semi-annually at 5.0%	3,514,487
	12,573,890
Less current portion	<u>(1,493,221)</u>
Unamortized premium	11,080,669
	1,183,049
Noncurrent portion	<u>\$ 12,263,718</u>

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 7 - BONDS PAYABLE (Continued)**

At June 30, 2025, future bond principal and interest payments was as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 1,493,221	\$ 495,273	\$ 1,988,494
2027	1,555,357	436,024	1,991,381
2028	1,164,889	381,779	1,546,668
2029	1,213,419	335,880	1,549,299
2030	1,262,278	287,885	1,550,163
2031-2035	4,081,256	804,418	4,885,674
2036-2040	1,223,995	334,428	1,558,423
2041-2042	<u>579,475</u>	<u>43,816</u>	<u>623,291</u>
Total	\$ <u>12,573,890</u>	\$ <u>3,119,503</u>	\$ <u>15,693,393</u>

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

**NOTE 8 - NOTES PAYABLE**

At June 30, 2025, notes payable from direct borrowings consisted of the following:

	<u>Amount</u>
Notes payable to State of Hawaii, Department of Health	
18 notes payable to State Revolving Loan Fund for capital improvement projects, payable in semi-annual installments of principal, with interest at rates ranging from 0.00% to 1.15%, loan fee rates ranging from 1.00% to 1.50%, and maturities ranging from 2032 to 2044.	\$ <u>35,822,830</u>
	35,822,830
Less current portion	<u>(2,852,979)</u>
	\$ <u>32,969,851</u>

In fiscal year 2025, the Department recognized a gain of \$763,221 from the forgiveness of debt on a note payable to the State of Hawaii, Department of Health, Drinking Water State Revolving Fund. The forgiveness was granted under the terms of the loan agreement upon satisfaction of certain compliance criteria.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 8 - NOTES PAYABLE (Continued)**

As of June 30, 2025, future principal and interest payments for notes payable from direct borrowings was as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 2,852,979	\$ 480,174	\$ 3,333,153
2027	2,881,819	441,370	3,323,189
2028	2,911,048	402,138	3,313,186
2029	2,940,786	362,354	3,303,140
2030	2,970,826	322,226	3,293,052
2031-2035	13,576,008	1,009,063	14,585,071
2036-2040	7,502,783	235,856	7,738,639
2041-2044	<u>186,581</u>	<u>5,016</u>	<u>191,597</u>
Total	\$ <u>35,822,830</u>	\$ <u>3,258,197</u>	\$ <u>39,081,027</u>

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

**NOTE 9 - LEASE LIABILITY**

At June 30, 2025, future lease liability principal and interest payments were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 76,108	\$ 4,964	\$ 81,072
2027	<u>81,704</u>	<u>1,794</u>	<u>83,498</u>
Total	\$ <u>157,812</u>	\$ <u>6,758</u>	\$ <u>164,570</u>

**NOTE 10 - FINANCED PURCHASE**

During 2023 the County entered into an agreement for financing energy efficient improvements in various buildings, with an interest rate of 3.83%. The Department will own the assets at the end of the agreement for a purchase price of \$1 after the final payment is made, and there is no termination option. Principal payments made during the fiscal year ended June 30, 2025 totaled \$156,863.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 10 - FINANCED PURCHASE (Continued)**

Future minimum payments for this financed purchase agreement are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 21,575	\$ 28,970	\$ 50,545
2027	25,106	28,144	53,250
2028	28,639	27,182	55,821
2029	32,292	26,085	58,377
2030	36,055	24,848	60,903
2031-2035	246,636	100,275	346,911
2036-2040	<u>366,093</u>	<u>42,898</u>	<u>408,991</u>
Total	\$ <u>756,396</u>	\$ <u>278,402</u>	\$ <u>1,034,798</u>

**NOTE 11 - RETIREMENT BENEFITS**

**Pension Plan**

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

**Benefits Provided** - The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.00%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling (1.5% of the original retirement allowance the first year, 3.0% the second year, 4.5% the third year, etc.).

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 11 - RETIREMENT BENEFITS (Continued)**

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

*Noncontributory Class*

*Retirement Benefits* - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

*Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least 10 years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

*Contributory Class for Employees Hired Prior to July 1, 2012*

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

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

**Department of Water Supply  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

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

*Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

*Contributory Class for Employees Hired After June 30, 2012*

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

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

*Disability and Death Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. 10 years of credited service is required for ordinary disability.

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

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

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

*Hybrid Class for Employees Hired Prior to July 1, 2012*

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

*Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

*Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

*Hybrid Class for Employees Hired After June 30, 2012*

*Retirement Benefits* - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire within 25 years of credited service at age 55.

*Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, plus a percentage multiplied by 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

**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 has been a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. Contributions to the pension plan from the Department were \$3,970,496 for the fiscal year ended June 30, 2025. The contribution rate was 41% for police officers and firefighters and 24% for all other employees for the fiscal year 2025.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012, are required to contribute 7.8% of their salary and police officers and firefighters are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012, are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At June 30, 2025, the Department reported a liability of \$48,998,778, for its proportionate share of net pension liability of the County. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on a proportion of the Department's contributions to the pension plan relative to the projected contributions of the County. At June 30, 2024, the Department's proportion of the County's proportion was 7.5511%, which was a decrease of 0.0593% from its proportion measured as of June 30, 2023.

There were no other changes between the measurement date, June 30, 2024, and the reporting date, June 30, 2025 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, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

For the fiscal year ended June 30, 2025, the Department recognized pension expense of \$4,475,855. At June 30, 2025, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,289,403	\$ 360,057
Net difference between projected and actual earnings on pension plan investments	2,290,887	--
Changes in proportion and difference between Department contributions and proportionate share of contributions	2,609,774	1,854,786
Changes of assumptions	556,884	268,609
Department contributions subsequent to the measurement date	<u>3,970,496</u>	<u>--</u>
	<u>\$ 10,717,444</u>	<u>\$ 2,483,452</u>

At June 30, 2025, the \$3,970,496 reported as deferred outflows of resources related to pensions resulted from contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2026.

Other amounts reported as deferred outflows (inflows) of resources related to pensions as of June 30, 2025 will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2026	\$ (1,413,344)
2027	3,215,411
2028	2,249,138
2029	<u>212,291</u>
Total	<u>\$ 4,263,496</u>

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

**Actuarial Assumptions** - The total pension liability in the June 30, 2024 actuarial valuation were based on actuarial valuations as of June 30, 2024. For actuarial valuations as of June 30, 2024, the actuarial assumptions were based on the results of an experience study as of June 30, 2022. The following actuarial assumptions were used in the June 30, 2024 actuarial valuation:

	Amount
Inflation	2.50%
Investment rate of return, including inflation	7.00%
Salary increases, including inflation	
Police and fire employees	5.00% to 6.00%
General employees	3.75% to 6.75%
Teachers	3.75% to 6.75%
Cost of living adjustments (COLAs)	
Membership date prior to July 1, 2012	2.50%
Membership date after to June 30, 2012	1.50%

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

Mortality rates used in the actuarial valuation as of June 30, 2024 were based on the following:

Active members: Multiples of the Pub-2010, Employee Tables for active employees based on the occupation of the member.

Healthy retirees: The 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by Scale MP from the year 2022 (with immediate convergence) and with multiplier and setbacks based on plan and group experience.

Disabled retirees: Base Table for healthy retirees' occupation, set forward three years, generational projection using the MP projection table from the year 2022 with immediate convergence. Minimum mortality rate of 3.5% for males and 2.5% for females.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Client Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return (real returns and inflation) by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2024 is summarized in the following table:

Strategic Allocation (Risk-Based Classes)	Target Allocation	Expected Long-Term Geometric Average Return*
Broad growth	70.00%	8.40%
Diversifying strategies	30.00%	4.40%
	100.00%	

\*Uses an expected inflation of 2.40% for 2025

**Discount Rate** - The discount rate used to measure the net pension liability at June 30, 2025 was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the County will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

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.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

***Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** - The following presents the Department's proportionate share of the net pension liability as of June 30, 2025, calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ <u>58,412,558</u>	\$ <u>48,998,778</u>	\$ <u>31,651,445</u>

***Pension Plan Fiduciary Net Position***

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

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

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

***Payables to the Pension Plan***

At June 30, 2025, the amount payable to the ERS totaled \$1,412,327.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

**Postemployment Benefits Other Than Pensions (OPEB)**

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

For employees hired before July 1, 1996, the County pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the County makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the County pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the County pays 75% of the base monthly contribution. For those retiring with at least 25 years of service, the County pays 100% of the base monthly contribution. A retiree can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with fewer than 10 years of service, the County makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the County pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the County pays 75% of the base monthly contribution. For those retiring with at least 25 years of service, the County pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

**Employees Covered by Benefit Terms** - At July 1, 2024, the following number of plan members were covered by the benefit terms:

Inactive employees or their beneficiaries currently receiving benefits	1,890
Inactive employees entitled to but not yet receiving benefits	268
Active members	2,547
Total	4,705

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

**Contributions** - Measurement of the actuarial valuation and the annual required contributions (ARC) are made for the County as a whole and are not separately computed for the individual County departments and agencies such as the Department. Contributions are governed by HRS Chapter 87A and may be amended through legislation.

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 year ended June 30, 2025 was \$2,858,504, which equaled the Department's allocated ARC for postemployment health care and life insurance benefits.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** - At June 30, 2025, the Department's share of the net OPEB liability was \$3,685,313. The net OPEB liability was measured as of July 1, 2024, and the total OPEB liability to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2024, and the reporting date, June 30, 2025 that are expected to have a significant effect on the net OPEB liability.

For the fiscal year ended June 30, 2025, the Department recognized OPEB expense of \$407,507. At June 30, 2025, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 125,890	\$ 5,585,618
Net difference between projected and actual earnings on OPEB plan investments	--	14,922
Changes of assumptions	108,318	705,798
Department contributions subsequent to the measurement date	<u>2,858,504</u>	<u>--</u>
	<u>\$ 3,092,712</u>	<u>\$ 6,306,338</u>

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

At June 30, 2025, the \$2,858,504 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2026.

Other amounts reported as deferred inflows of resources related to OPEB as of June 30, 2025 will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,	Amount
2026	\$ (2,081,263)
2027	(1,063,248)
2028	(1,285,505)
2029	(1,028,193)
2030	(353,425)
Thereafter	(260,496)
	\$ (6,072,130)

**Actuarial assumptions** - The total OPEB liability in the July 1, 2024 actuarial valuation was determined using the following actuarial assumptions, based on the 2022 actuarial experience study conducted for the ERS as of June 30, 2021:

Actuarial cost method	Entry age normal
Investment rate of return	7.00%
Inflation	2.50%
Salary increases	3.75% to 6.75%, including inflation
Demographic assumptions	Based on the 2022 Hawaii ERS Actuarial Experience Study, as conducted June 30, 2021 for the ERS.
Mortality	System-specific mortality tables utilizing ultimate scale MP 2021 to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution (BMC). Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

Healthcare cost trend rates

PPO*	Initial rate of 6.20%, declining to a rate of 4.25% after 20 years
HMO**	Initial rate of 6.20%, declining to a rate of 4.25% after 20 years
Part B & Base Monthly Contribution (BMC)	Initial rate of 5.00%, declining to a rate of 4.25% after 20 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

\* Blended rates for medical and prescription drugs

\*\* Includes prescription drug assumptions

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of July 1, 2024 is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	30.00%	6.00%
Private equity	15.00%	10.10%
Real assets	12.00%	5.00%
Private credit	10.00%	7.80%
Trend following	10.00%	2.40%
Reinsurance	5.50%	5.10%
Long treasuries	5.00%	2.60%
Alternative risk premia	5.00%	3.80%
U.S. microcap	3.00%	8.30%
TIPS	2.50%	2.10%
Tail risk / long volatility	2.00%	-1.30%
	<u>100.00%</u>	

**Single Discount rate** - The discount rate used to measure the total OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.97% (based on the daily rate closest to but not later than the measurement date of the Fidelity 20-year municipal GO AA Index). Beginning with the fiscal year 2019 contribution, the funding policy of the County of Maui is to pay the recommended

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

actuarially determined contribution, which is based on layered, closed amortization periods. As a result, the EUTF's fiduciary net position is still expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the EUTF's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

**Changes in the Net OPEB Liability**

The following schedule presents the changes in the net OPEB liability for the fiscal year ended June 30, 2025. The ending balances are as of the measurement date July 1, 2024.

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
<b>Balance at June 30, 2024</b>	\$ 46,194,401	\$ 36,215,834	\$ 9,978,567
<b>Changes for the fiscal year:</b>			
Service cost	974,333	--	974,333
Interest on the total OPEB liability	3,254,311	--	3,254,311
Contributions - employer	--	4,514,338	(4,514,338)
Net investment income	--	3,503,585	(3,503,585)
Difference between expected and actual experience	(2,496,706)	--	(2,496,706)
Benefit payments	(1,666,252)	(1,666,252)	--
Administrative expense	--	(3,600)	3,600
Other	--	10,869	(10,869)
<b>Net changes</b>	<u>65,686</u>	<u>6,358,940</u>	<u>(6,293,254)</u>
<b>Balance at June 30, 2025</b>	\$ <u>46,260,087</u>	\$ <u>42,574,774</u>	\$ <u>3,685,313</u>

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 11 - RETIREMENT BENEFITS (Continued)**

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	\$ <u>11,226,935</u>	\$ <u>3,685,313</u>	\$ <u>(1,589,096)</u>

***Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*** - The following presents the net OPEB liability of the Department, as well as what the Department's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Department's proportionate share of the net OPEB liability	\$ <u>(1,861,276)</u>	\$ <u>3,685,313</u>	\$ <u>11,683,467</u>

**Deferred Compensation Plan**

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

All plan assets are held in a trust fund to protect them from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. The County has no responsibility for loss due to the investment or failure of investment of funds and assets in the plans but does have the duty of due care that would be required of an ordinary prudent investor. Therefore, in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, deferred compensation plan assets are not reported in the accompanying basic financial statements.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**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 of over \$750,000. 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.

Claim liabilities are calculated and periodically re-evaluated taking into consideration the effect of inflation, recent claim settlement trends, including frequency and amount of compensation subject to settlements, and other economic and social factors.

Changes in the claims and judgments liability account for the fiscal year ended June 30, 2025 and 2024 was as follows:

<u>Fiscal Year</u>	<u>Liability at Beginning of Year</u>	<u>Change to Estimate Additions/ (Reductions)</u>	<u>Claim Payments</u>	<u>Liability at End of Year</u>
2025	\$ 164,323	\$ 230,573	\$ 273,327	\$ 121,569
2024	\$ 741,171	\$ (200,795)	\$ 376,053	\$ 164,323

The estimated total liability has been determined through case-by-case analysis and from historical experience performed by the County’s risk management division. Those historical results, combined with the evaluation of pending claims against the County by the County’s Corporation Counsel, aid in this evaluation.

**NOTE 13 - INTERFUND TRANSFER AND PAYABLE**

During the fiscal year ended June 30, 2025, the County loaned \$23,557,000 from the County Fund to the Department to subsidize expenditures related to appropriated water-related projects. The funds are restricted to housing infrastructure, including water, drainage, sewer, water reuse, waste disposal, and waste treatment systems that connect to the infrastructure of the County. Any unspent funds are due back to the County Fund upon the conclusion of the projects. During the fiscal year ended June 30, 2025, the Department spent \$929,319 of the transferred funds. As of June 30, 2025, the amount due to the County Fund totaled \$22,627,681.

**Department of Water Supply  
County of Maui  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2025**

**NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE**

The Department adopted GASB Statement No. 101 during the fiscal year ended June 30, 2025. As a result of applying the requirements of GASB Statement No. 101, the beginning balances of net position and compensated absences were restated as follows:

	<u>Amount</u>
Beginning net position, as previously reported	\$ 375,980,986
Adjustment for increase in compensated absences	<u>(1,303,676)</u>
Beginning net position, as restated	\$ <u><u>374,677,310</u></u>

## **SUPPLEMENTARY INFORMATION**

**Department of Water Supply  
County of Maui  
SCHEDULE I - SCHEDULE OF CAPITAL ASSETS  
Fiscal Year Ended June 30, 2025**

Description	Balance	Additions	Reductions/	Balance	Accumulated		Reductions/	Accumulated
	July 1, 2024	and Transfers	Retirements	June 30, 2025	Depreciation	Additions	Retirements	Depreciation
					July 1, 2024			June 30, 2025
Land	\$ 8,868,809	\$ 453,546	\$ --	\$ 9,322,355	\$ --	\$ --	\$ --	\$ --
Source of Supply Structures	13,652,447	--	--	13,652,447	2,478,498	272,289	--	2,750,787
Collecting and Impounding Reservoirs	4,251,683	--	--	4,251,683	3,904,658	27,186	--	3,931,844
Wells & Springs	26,648,541	--	--	26,648,541	8,208,149	528,249	--	8,736,398
Power & Pumping Structures	23,449,507	395,313	--	23,844,820	5,231,976	469,144	--	5,701,120
Purification Buildings	35,296,935	--	--	35,296,935	34,234,724	131,187	--	34,365,911
Distribution Reservoirs	92,796,566	--	--	92,796,566	45,194,703	2,429,137	--	47,623,840
Office Building	4,918,171	364,869	--	5,283,040	1,649,827	194,270	--	1,844,097
Field Operation Building	1,349,400	--	--	1,349,400	1,055,201	31,942	--	1,087,143
Utility Plant - Unclassified	591,079	--	--	591,079	591,083	--	--	591,083
Electric Pumping Equipment	48,616,732	3,101,528	--	51,718,260	33,511,104	2,567,502	--	36,078,606
Other Power Pumping Equipment	3,485,222	--	--	3,485,222	3,222,476	104,133	--	3,326,609
Purification System - Chlorinators	10,927,562	83,250	--	11,010,812	6,553,282	784,996	--	7,338,278
Purification System - Filter Plants	57,037,991	--	--	57,037,991	51,406,542	578,463	--	51,985,005
Transmission & Distribution Mains	340,609,701	8,773,634	--	349,383,335	172,737,342	7,248,983	--	179,986,325
Service Laterals	5,062,956	111,837	--	5,174,793	3,431,707	161,606	--	3,593,313
Meters	9,011,284	--	--	9,011,284	7,833,580	261,792	--	8,095,372
Office Furniture & Equipment	137,351	382,350	--	519,701	47,401	18,860	--	66,261
Stores Equipment	198,385	--	--	198,385	140,991	4,991	--	145,982
Shop Equipment	72,604	--	--	72,604	69,139	315	--	69,454
Laboratory Equipment	546,689	86,340	--	633,029	437,069	15,598	--	452,667
Work Equipment	5,095,950	995,994	--	6,091,944	2,758,937	239,611	--	2,998,548
Communication Equipment	1,867,172	--	--	1,867,172	1,654,221	81,388	--	1,735,609
Meter Boxes	286,895	204,000	--	490,895	286,895	850	--	287,745
Hydrants	12,256,183	829,337	--	13,085,520	5,654,730	239,958	--	5,894,688
Standpipes	236,286	--	--	236,286	222,434	2,133	--	224,567
	<u>707,272,101</u>	<u>15,781,998</u>	--	<u>723,054,099</u>	<u>392,516,669</u>	<u>16,394,583</u>	--	<u>408,911,252</u>
Office Machines	513,322	--	--	513,322	480,471	10,777	--	491,248
Transportation Equipment	6,377,933	423,941	--	6,801,874	5,348,867	368,511	--	5,717,378
Financed Purchase	--	809,868	--	809,868	--	33,745	--	33,745
Capital Assets	<u>714,163,356</u>	<u>17,015,807</u>	--	<u>731,179,163</u>	<u>398,346,007</u>	<u>16,807,616</u>	--	<u>415,153,623</u>
Lease Asset - Office Space	411,852	--	--	411,852	205,926	68,642	--	274,568
Total Capital Assets (1)	\$ <u>714,575,208</u>	\$ <u>17,015,807</u>	\$ --	\$ <u>731,591,015</u>	\$ <u>398,551,933</u>	\$ <u>16,876,258</u>	\$ --	\$ <u>415,428,191</u>
Construction in Aid		\$ 4,167,752						
Capital Replacement Fund		7,905,050						
Construction in Aid - Direct		1,087,338						
Revenue Fund		3,045,799						
Financed Purchase		809,868						
		<u>\$ 17,015,807</u>						

(1) Excludes construction in progress.

**Department of Water Supply  
County of Maui  
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS  
June 30, 2025**

<b>County of Maui General Obligation Bonds</b>	<b>Fiscal Year</b>	<b>Coupon Interest Rate</b>	<b>Bond Dated</b>	<b>Maturing Serially From</b>	<b>Call Dates</b>	<b>Authorized and Issued</b>	<b>Outstanding June 30, 2025</b>	<b>Payable Within One Year</b>
G.O. Refunding Bonds, 2012 Series B (a)								
	2026	3.000	11/1/2012	6/1/2026	6/1/2023	236,529	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	274,259	274,259	--
	2032	3.000	11/1/2012	6/1/2032	6/1/2023	282,481	282,481	--
Total 2012 Series B Issue						<u>1,813,392</u>	<u>1,813,392</u>	<u>236,529</u>
G.O. Refunding Bonds, 2014 Series C (b)								
	2026	3.000	12/1/2014	6/1/2026	6/1/2024	360,000	360,000	360,000
	2027	4.000	12/1/2014	6/1/2027	6/1/2024	370,000	370,000	--
	2028	3.000	12/1/2014	6/1/2028	6/1/2024	385,000	385,000	--
	2029	3.000	12/1/2014	6/1/2029	6/1/2024	400,000	400,000	--
	2030	3.000	12/1/2014	6/1/2030	6/1/2024	410,000	410,000	--
	2031	3.125	12/1/2014	6/1/2031	6/1/2024	420,000	420,000	--
	2032	3.250	12/1/2014	6/1/2032	6/1/2024	435,000	435,000	--
	2033	3.250	12/1/2014	6/1/2033	6/1/2024	450,000	450,000	--
	2034	3.250	12/1/2014	6/1/2034	6/1/2024	465,000	465,000	--
Total 2014 Series C Issue						<u>3,695,000</u>	<u>3,695,000</u>	<u>360,000</u>
G.O. Refunding Bonds, 2015 Series D (c)								
	2026	3.000	3/1/2016	9/1/2026	9/1/2025	416,904	416,904	416,904
	2027	3.000	3/1/2016	9/1/2027	9/1/2025	437,784	437,784	--
Total 2015 Series D Issue						<u>854,688</u>	<u>854,688</u>	<u>416,904</u>

**Department of Water Supply  
County of Maui  
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS (Continued)  
June 30, 2025**

<u>County of Maui General Obligation Bonds</u>	<u>Fiscal Year</u>	<u>Coupon Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2025</u>	<u>Payable Within One Year</u>
G.O. Refunding Bonds, 2018 Series C (d)								
	2026	5.000	9/1/2018	9/1/2026	Noncallable	305,000	305,000	305,000
	2027	5.000	9/1/2018	9/1/2027	Noncallable	320,000	320,000	--
	2028	5.000	9/1/2018	9/1/2028	Noncallable	335,000	335,000	--
	2029	5.000	9/1/2018	9/1/2029	9/1/2028	350,000	350,000	--
	2030	5.000	9/1/2018	9/1/2030	9/1/2028	370,000	370,000	--
	2031	4.000	9/1/2018	9/1/2031	9/1/2028	390,000	390,000	--
	2032	3.000	9/1/2018	9/1/2032	9/1/2028	<u>405,000</u>	<u>405,000</u>	<u>--</u>
Total 2018 Series C Issue						<u>2,475,000</u>	<u>2,475,000</u>	<u>305,000</u>
G.O. Refunding Bonds, 2020 Series B (e)								
	2026	5.000	9/23/2020	3/1/2026	Noncallable	38,752	38,752	38,752
	2027	5.000	9/23/2020	3/1/2027	Noncallable	41,149	41,149	--
	2028	5.000	9/23/2020	3/1/2028	Noncallable	43,945	43,945	--
	2029	5.000	9/23/2020	3/1/2029	Noncallable	47,140	47,140	--
	2030	5.000	9/23/2020	3/1/2030	Noncallable	<u>50,337</u>	<u>50,337</u>	<u>--</u>
Total 2020 Series B Issue						<u>221,323</u>	<u>221,323</u>	<u>38,752</u>

**Department of Water Supply  
County of Maui  
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS (Continued)  
June 30, 2025**

<u>County of Maui General Obligation Bonds</u>	<u>Fiscal Year</u>	<u>Coupon Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2025</u>	<u>Payable Within One Year</u>
G.O. Refunding Bonds, 2022 Series B (f)								
	2026	5.000	9/7/2022	3/1/2026	Noncallable	136,036	136,036	136,036
	2027	5.000	9/7/2022	3/1/2027	Noncallable	142,640	142,640	--
	2028	5.000	9/7/2022	3/1/2028	Noncallable	149,904	149,904	--
	2029	5.000	9/7/2022	3/1/2029	Noncallable	157,498	157,498	--
	2030	5.000	9/7/2022	3/1/2030	Noncallable	165,423	165,423	--
	2031	5.000	9/7/2022	3/1/2031	Noncallable	173,677	173,677	--
	2032	5.000	9/7/2022	3/1/2032	Noncallable	182,262	182,262	--
	2033	5.000	9/7/2022	3/1/2033	3/1/2032	191,507	191,507	--
	2034	5.000	9/7/2022	3/1/2034	3/1/2032	201,083	201,083	--
	2035	5.000	9/7/2022	3/1/2035	3/1/2032	210,988	210,988	--
	2036	5.000	9/7/2022	3/1/2036	3/1/2032	221,554	221,554	--
	2037	5.000	9/7/2022	3/1/2037	3/1/2032	232,450	232,450	--
	2038	5.000	9/7/2022	3/1/2038	3/1/2032	244,337	244,337	--
	2039	5.000	9/7/2022	3/1/2039	3/1/2032	256,554	256,554	--
	2040	5.000	9/7/2022	3/1/2040	3/1/2032	269,100	269,100	--
	2041	5.000	9/7/2022	3/1/2041	3/1/2032	282,638	282,638	--
	2042	5.000	9/7/2022	3/1/2042	3/1/2032	296,836	296,836	--
Total 2022 Series B Issue						<u>3,514,487</u>	<u>3,514,487</u>	<u>136,036</u>
Total General Obligation Bonds						\$ <u>12,573,890</u>	\$ <u>12,573,890</u>	\$ <u>1,493,221</u>

**Department of Water Supply  
County of Maui  
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT -  
GENERAL OBLIGATION BONDS (Continued)  
June 30, 2025**

**NOTES:**

- (a) The General Obligation Refunding Bonds, 2012, Series B, matured 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, 2026 to June 1, 2032, prior to their stated maturity, on or after June 1, 2023, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.
- (b) The General Obligation Refunding Bonds, 2014, Series C, matured 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.
- (c) 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.
- (d) The General Obligation Refunding Bonds, 2018, Series C, maturing on or before September 1, 2028 are not subject to redemption prior to maturity. The bonds maturing on or after September 1, 2029 are subject to redemption at the option of the County on or after September 1, 2028, in whole or in part at any time, from any maturities selected by the County, at a redemption price equal to 100% of the principal amount of the Bonds or portions thereof to be redeemed plus accrued interest to the date of redemption.
- (e) The General Obligation Refunding Bonds, 2020 Series B, maturing on or before March 1, 2030 are issued without the right or option of the County of Maui to redeem the same prior to their maturity dates.
- (f) The General Obligation Refunding Bonds 2022 Series B, maturing on or before March 1, 2032 are issued without the right or option of the County of Maui to redeem the same prior to their maturity dates.

**PART II**

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

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

To the Board of Water Supply  
County of Maui

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County of Maui, State of Hawaii, as of and for the fiscal year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 23, 2025.

**Report on Internal Control over Financial Reporting**

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

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

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

### **Report on Compliance and Other Matters**

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

### **Purpose of This Report**

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

*N&K CPAs, Inc.*

Honolulu, Hawai'i  
December 23, 2025