County Auditor
Lance T. Taguchi, CPA

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COUNTY OF MAUI
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January 21, 2021

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

Dear Chair Lee and Members:

SUBJECT: **DEPARTMENT OF WATER SUPPLY FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

We have received the Department of Water Supply Financial Statements and Supplementary Information with Independent Auditor's Report for Fiscal Years Ended June 30, 2020 and 2019, submitted by N&K CPAs, Inc., the County's contractor.

Transmitted are 19 copies.

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

Sincerely,

LANCE T. TAGUCHI, CPA
County Auditor

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Enclosure

COUNTY COMMUNICATION NO. 21-83

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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2020 and 2019

N&K CPAs, Inc.
ACCOUNTANTS|CONSULTANTS

999 BISHOP STREET, SUITE 2200 | HONOLULU, HAWAII 96813
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DEPARTMENT OF WATER SUPPLY
COUNTY OF MAUI

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PART I

FINANCIAL SECTION

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Water Supply
County of Maui

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County of Maui, as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the County of Maui that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the County of Maui as of June 30, 2020 and 2019, the changes in its financial position, or its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the Department's basic financial statements. The supplemental schedules of capital assets for the fiscal year ended June 30, 2020 and of long-term debt - general obligation bonds as of June 30, 2020 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of capital assets and of long-term debt - general obligation bonds are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of capital assets and of long-term debt - general obligation bonds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2020 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, 2020

Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION
June 30, 2020 and 2019

	2020	2019
CURRENT ASSETS		
Equity in pooled cash and investments held in County Treasury	$ 75,990,422	$ 70,510,717
Customer receivables		
Billed	3,919,842	4,416,275
Less: allowance for doubtful accounts	(90,686)	(61,346)
	3,829,156	4,354,929
Unbilled	3,182,856	3,063,164
Total customer receivables	7,012,012	7,418,093
Materials and supplies	1,577,959	1,673,652
Other current assets	139,171	213,583
Total current unrestricted assets	84,719,564	79,816,045
RESTRICTED ASSETS		
Equity in pooled cash and investments held in County Treasury	36,188,231	35,245,317
Total current assets	120,907,795	115,061,362
CAPITAL ASSETS		
Utility plant in service	663,654,966	634,482,747
Less accumulated depreciation	(336,922,227)	(318,692,910)
	326,732,739	315,789,837
Land	8,007,145	7,905,059
Construction work in progress	21,923,861	34,418,791
Total capital assets	356,663,745	358,113,687
TOTAL ASSETS	477,571,540	473,175,049
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	8,035,456	9,305,359
Deferred outflows of resources related to OPEB	4,788,398	3,451,852
Unamortized loss on advanced refunding	100,418	116,702
TOTAL DEFERRED OUTFLOWS OF RESOURCES	12,924,272	12,873,913
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 490,495,812	$ 486,048,962

See accompanying notes to financial statements.

Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION (Continued)
June 30, 2020 and 2019

	2020	2019
CURRENT LIABILITIES		
Payable from unrestricted current assets		
Bonds payable, current portion	$ 2,472,697	$ 2,950,708
Notes payable, current portion	2,550,020	2,349,064
Accounts payable	3,226,657	2,746,346
Accrued vacation, current portion	934,650	865,175
Accrued compensatory time off	139,680	114,265
Construction contracts payable, including retainages	904,125	2,528,146
Claims and judgments	322,171	512,940
Accrued interest payable	364,418	382,214
Customer advances for utility construction	308,282	305,091
	11,222,700	12,753,949
Payable from restricted assets		
Construction contracts payable, including retainages	404,567	788,574
Customer deposits	721,055	758,279
Refundable advances	1,000,000	1,000,000
	2,125,622	2,546,853
Total current liabilities	13,348,322	15,300,802
NON-CURRENT LIABILITIES		
Bonds payable, non-current portion	17,640,706	20,468,354
Notes payable, non-current portion	43,024,331	43,048,918
Net pension liability	43,112,852	41,040,357
Net OPEB liability	24,007,403	23,903,694
Accrued vacation, non-current portion	981,141	888,390
Total non-current liabilities	128,766,433	129,349,713
TOTAL LIABILITIES	142,114,755	144,650,515
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	460,319	671,167
Deferred inflows of resources related to OPEB	378,657	720,112
TOTAL DEFERRED INFLOWS OF RESOURCES	838,976	1,391,279
NET POSITION		
Net investment in capital assets	293,509,050	291,816,714
Restricted	33,108,459	32,155,789
Unrestricted	20,924,572	16,034,665
TOTAL NET POSITION	347,542,081	340,007,168
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 490,495,812	$ 486,048,962

See accompanying notes to financial statements.

Department of Water Supply
County of Maui
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Water sales	$ 67,078,751	$ 63,672,230
Other revenues	1,106,747	788,221
Total operating revenues	68,185,498	64,460,451
OPERATING EXPENSES		
Depreciation and amortization	18,464,719	15,867,467
Administrative and general	18,068,336	17,203,664
Power and pumping	12,584,077	12,640,326
Transmission and distribution	9,585,103	7,635,342
Purification	6,793,043	6,724,199
Customers' accounting and collection	1,880,398	1,619,674
Source of supply	1,675,982	621,098
Total operating expenses	69,051,658	62,311,770
Operating income (loss)	(866,160)	2,148,681
NONOPERATING INCOME (EXPENSES)		
Interest expense	(1,106,083)	(1,239,270)
Interest and investment income	3,262,190	3,908,681
Other income	--	474,554
Total nonoperating income	2,156,107	3,143,965
Income before capital contributions	1,289,947	5,292,646
Capital contributions	6,244,966	14,276,082
Change in net position	7,534,913	19,568,728
NET POSITION		
Beginning of year	340,007,168	320,438,440
End of year	$ 347,542,081	$ 340,007,168

See accompanying notes to financial statements.

Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	$ 68,655,178	$ 64,254,052
Payments to suppliers for goods and services	(30,932,777)	(25,310,594)
Payments to employees for services	(19,521,243)	(19,038,021)
Utility construction advances (refunds)	(34,033)	206,057
Net cash provided by operating activities	18,167,125	20,111,494
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income received from investments	3,262,190	3,908,681
Net cash provided by investing activities	3,262,190	3,908,681
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for acquisition of construction of capital assets, including capitalized interest	(13,058,334)	(13,379,474)
Principal paid on bonds and notes payable	(5,313,738)	(8,512,692)
Proceeds from bonds and notes payable	2,539,399	9,830,336
Cash received from capital contributions and other	2,288,523	10,098,731
Interest paid on bonds and notes payable	(1,462,546)	(1,557,133)
Net cash used in capital and related financing activities	(15,006,696)	(3,520,232)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,422,619	20,499,943
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	105,756,034	85,256,091
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	$ 112,178,653	$ 105,756,034
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Unrestricted	$ 75,990,422	$ 70,510,717
Restricted	36,188,231	35,245,317
	$ 112,178,653	$ 105,756,034

See accompanying notes to financial statements.

Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ (866,160)	$ 2,148,681
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,464,719	15,867,467
Provision for doubtful accounts	221,087	26,162
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Customer receivables	184,994	(206,750)
Materials and supplies	95,693	24,546
Other current assets	74,412	(11,158)
Deferred outflows of resources related to pensions	1,269,903	920,724
Deferred outflows of resources related to OPEB	(1,336,546)	(923,531)
Accounts and construction contracts payable	(2,201,822)	802,767
Claims and judgments	(190,769)	(331,153)
Other liabilities and deposits	827,713	22,183
Net pension liability	2,072,495	1,786,242
Net OPEB liability	103,709	(133,475)
Deferred inflows of resources related to pensions	(210,848)	(315,511)
Deferred inflows of resources related to OPEB	(341,455)	434,300
Net cash provided by operating activities	$ 18,167,125	$ 20,111,494
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	$ 3,956,443	$ 4,651,905
Amortization of deferred loss on refunding	$ 16,284	$ 16,284
Amortization of bond premium	$ 354,951	$ 343,011

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) ***Organization*** - The Department of Water Supply (the Department) operates as a proprietary fund in the County of Maui, State of Hawaii (the County), to develop adequate water sources, storage, and transmission for both urban and agricultural uses for the County. The County Charter amendment (effective January 2, 2003) provides the following:

- The Department is a regular County of Maui agency subject to the Mayor's executive management and Council's legislative oversight.
- The current Board of Directors of the Department is an advisory body (with power to recommend budget proposals and rate adjustments).
- The Mayor has the power to appoint the Director (with approval of Council).
- The Department has the responsibility to survey public and private water sources.
- The Department must prepare and annually update a long-range capital improvement plan (subject to Council approval) and implement such approved plans. The Council has the power to issue general obligation bonds and provide appropriations for capital improvements of the water system.

(2) ***Financial Statement Presentation*** - The Department is a proprietary type fund of the County (the primary government). The accompanying financial statements present only the financial position and activities of the Department, and do not purport to, and do not, present the financial position of the County, the changes in financial position, or its cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP).

(3) ***Measurement Focus and Basis of Accounting*** - The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

(4) ***Use of Estimates*** - The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances of receivables, accrued workers' compensation, and pension and post-retirement benefits. Actual results could differ from those estimates.

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

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

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

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

(7) ***Customer Receivables and Allowance for Doubtful Accounts*** - Customer receivables are net of an allowance for doubtful accounts. The Department considers accounts delinquent once they have reached 31 days past due. Management charges off uncollectible customer receivables to expense and turns over delinquent accounts for collection when it is determined the amounts will not be realized. The allowance for doubtful accounts is based on the Department's prior experience of collections.

(8) ***Materials and Supplies*** - Materials and supplies are stated at weighted average cost (which approximates the first-in, first-out method). The cost of materials and supplies are recorded as expenses when consumed rather than when purchased.

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

(10) ***Capital Assets*** - Utility plant in service is stated at cost and include contributions by governmental agencies, private developers, and customers at their cost or estimated cost. Capital assets include individual assets or group of similar assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year.

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

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

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

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

(11) ***Debt Premium and Discounts*** - Debt premium and discounts arising from the issuance of debt securities are amortized over the life of the bonds. Amortization of debt premiums is recorded as a reduction of interest expense.

(12) ***Deferred Amounts on Advance Refunding*** - For advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the carrying amount of the old debt is deferred. This amount is amortized as a component of interest expense using the bonds outstanding method over the remaining life of the old debt or the life of the new, whichever is shorter. The amount deferred is reported as a deferred inflow or outflow of resources.

(13) ***Compensated Absences*** - Employees earn vacation benefits at one and three-quarters working days for each month of service. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. Unused vacation benefits are converted to pay upon termination of employment. Employees earn compensatory time off at the rate of one and a half hours for each hour of overtime worked. Unused compensatory time off is converted to pay upon termination of employment.

(14) ***Deferred Outflows of Resources and Deferred Inflows of Resources*** - Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense or expenditure) until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

(15) ***Net Position*** - Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The three components of net position are defined as follows:

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

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

- *Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Department's policy is generally to use restricted net position first, as appropriate opportunities arise.

- *Unrestricted* - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

(16) ***Operating Revenues and Expenses*** - Revenues and expenses are distinguished between operating and non-operating.

- Operating Revenues - Operating revenues generally result from providing goods and services in connection with the Department's principal ongoing operations. The principal operating revenues of the Department are fees for water service.

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

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

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

(17) ***Water System Development Fee*** - A water system development fee is levied against all new developments requiring water from the Department's systems, except those developments that have paid for and installed a complete water system, including source, transmission, and daily storage facilities. The amounts collected, net of costs incurred for water credits used to acquire additional water supply, are recorded as capital contributions.

(18) ***Capital Contributions*** - The Department receives Federal and State of Hawaii grants to pay for portions of construction costs related to various capital projects. The Department also receives development fees and dedications of infrastructure assets for various developments. The amounts received are recorded as capital contributions in the accompanying statements of revenues, expenses, and changes in net position.

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

(19) ***Pensions*** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, employer and employee contributions are recognized in the period in which the contributions are legally due and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

(20) ***Postemployment Benefits Other Than Pensions (OPEB)*** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from EUTF's fiduciary net position have been determined on the same basis as they are reported by EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.

(21) ***New Accounting Pronouncements*** - The GASB issued Statement No. 87, *Leases.* This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. Management has not yet determined the effect this Statement will have on the Department's financial statements.

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

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

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

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

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

- Statement No. 87; effective date postponed 18 months for reporting periods beginning after June 15, 2021
- Statement No. 90; effective date postponed one year for reporting periods beginning after December 15, 2019
- Statement No. 91; effective date postponed one year for reporting periods beginning after December 15, 2021

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

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

The requirements of this Statement were effective in May 2020.

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

NOTE 2 - CASH AND INVESTMENTS

The Department's cash and investments are maintained with the County's Treasury in a cash and investment pool available for use by all of the County's funds. At June 30, 2020, and 2019, the amounts reported on the statements of net position as equity in pooled cash and investments held in County Treasury represents the Department's relative position in the County's cash and investment pool and amounted to $112,178,653 and $105,756,034, respectively.

County's Investment Policy

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

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

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

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

Credit Quality Risk - Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligation. The County's investment policy limits investments in municipal securities, U.S. Treasury securities, negotiable time certificates of deposits, U.S. government agency obligations, repurchase agreements, commercial paper, bankers' acceptances, money market funds, and auction rate securities collateralized by student loans maintaining Triple-A rating. The bond ratings for the County's investments in U.S. agency obligations (government sponsored enterprises) at June 30, 2020 and 2019 were as follows:

	2020	2019
AA+	$ 204,029,226	$ 238,841,727
AA	440,368	16,357,625
A - 1+	33,997,121	--
A - 1	11,995,722	--
Not rated	23,511,257	30,123,065
	$ 273,973,694	$ 285,322,417

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

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

Custodial credit risk for bank depository accounts is the risk that in the event of a bank failure, the County's deposits may not be returned. It is the County's policy to place its bank deposits with State of Hawaii high credit quality financial institutions that are able to meet the collateral requirements for the County's deposits. As of June 30, 2020 and 2019, substantially all of the County's negotiable time certificates of deposits and cash deposits were insured and collateralized.

NOTE 2 - CASH AND INVESTMENTS (Continued)

Pooled Cash and Investments Held in County Treasury

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

The Department's share of the County's cash and investment pool, as summarized in the tables below was approximately 21.1% and 21.6% at June 30, 2020, and 2019, respectively.

As of June 30, 2020, the County and fiduciary fund's cash and investments were as follows:

Type of Investment	% Yield	Maturity: Under 30 Days	Maturity: 31 - 180 Days	Maturity: 181 - 365 Days	Maturity: 1 - 5 Years	Premiums (Discounts)	Fair Value
Federal National Mortgage Association Coupon Notes	1.38 - 2.00	$ --	$ 2,000,000	$ --	$ 17,000,000	$ 806,280	$ 19,806,280
Federal Home Loan Bank Bank Notes	1.50- 3.38	--	3,000,000	--	37,500,000	1,913,465	42,413,465
Federal Farm Credit Bank Notes	1.55 - 3.05	--	4,000,000	1,985,000	80,238,000	5,011,221	91,234,221
Federal Agricultural Mortgage Corporation Notes	1.70 - 2.68	--	--	--	14,500,000	727,325	15,227,325
Federal Home Loan Mortgage Corporation Notes	1.5 - 2.75	--	--	--	15,000,000	879,510	15,879,510
Tennessee Valley Authority Notes	3.875	--	--	5,000,000	--	113,300	5,113,300
U.S. Treasury Strips	1.94	--	--	--	2,000,000	(6,720)	1,993,280
U.S. Treasury Notes	1.63 - 1.75	--	7,000,000	--	13,000,000	461,920	20,461,920
Commercial Paper	0.18 - 0.92	14,000,000	32,000,000	--	--	(7,156)	45,992,844
Municipal Securities	1.60 - 4.80	600,000	1,860,000	380,000	12,595,000	416,549	15,851,549
Negotiable certificates of deposit	1.25 - 3.55	2,250,000	7,980,000	11,250,000	10,999,000	626,735	33,105,735
Total investments		$ 16,850,000	$ 57,840,000	$ 18,615,000	$ 202,832,000	$ 10,942,429	307,079,429
						Cash on hand and deposits	225,257,519
						Total equity in pooled cash and investments	$ 532,336,948

NOTE 2 - CASH AND INVESTMENTS (Continued)

As of June 30, 2019, the County and fiduciary fund's cash and investments were as follows:

Type of Investment	% Yield	Maturity: Under 30 Days	Maturity: 31 - 180 Days	Maturity: 181 - 365 Days	Maturity: 1 - 5 Years	Premiums (Discounts)	Fair Value
Federal National Mortgage Association Coupon Notes	1.21 - 1.84	$ --	$ 7,595,000	$ 4,000,000	$ 14,970,000	$ (102,252)	$ 26,462,748
Federal Home Loan Bank Bank Notes	1.40 - 3.30	--	2,000,000	11,500,000	70,500,000	492,040	84,492,040
Federal Farm Credit Bank Notes	1.88 - 3.05	--	--	--	76,223,000	1,828,090	78,051,090
Federal Agricultural Mortgage Corporation Notes	2.40 - 2.55	--	--	--	7,000,000	112,140	7,112,140
Federal Home Loan Mortgage Corporation Notes	1.08 - 2.55	2,000,000	2,000,000	--	39,030,000	178,775	43,208,775
Tennessee Valley Authority Notes	2.33 - 2.72	--	--	1,000,000	5,000,000	159,800	6,159,800
U.S. Treasury Strips	1.94	--	--	--	2,000,000	(99,460)	1,900,540
U.S. Treasury Notes	1.78 - 3.04	--	3,500,000	5,000,000	6,000,000	(42,915)	14,457,085
Municipal Securities	1.25 - 3.26	570,000	8,325,000	--	14,430,000	153,199	23,478,199
Negotiable certificates of deposit	0.10 - 3.50	1,000,000	6,750,000	13,450,000	43,190,000	152,553	64,542,553
Total investments		$ 3,570,000	$ 30,170,000	$ 34,950,000	$ 278,343,000	$ 2,831,970	349,864,970
						Cash on hand and deposits	138,908,976
						Total equity in pooled cash and investments	$ 488,773,946

Unrestricted equity in pooled cash and investments held in County Treasury at June 30, 2020 and 2019 include funds for the following purposes:

	2020	2019
Board-designated		
Capital improvements	$ 26,111,563	$ 25,003,684
Debt service	2,116,350	2,512,154
Total board-designated	28,227,913	27,515,838
Undesignated	47,762,509	42,994,879
Total	$ 75,990,422	$ 70,510,717

At June 30, 2020 and 2019, construction contract payables, including retentions, to be paid with board-designated funds were approximately $900,000 and $1.1 million, respectively. Construction contract commitments as of June 30, 2020 and 2019, to be paid with board-designated funds, aggregated approximately $7.6 million and $10.4 million, respectively. There are no amounts included in the construction contract commitment amounts for 2020 and 2019 for maintenance of compliance-order projects and no amounts included for management's estimates needed in anticipation of future regulations for compliance.

NOTE 2 - CASH AND INVESTMENTS (Continued)

Restricted equity in pooled cash and investments held in County Treasury consisted of the following at June 30, 2020 and 2019:

	2020	2019
Water system development fee	$ 20,384,500	$ 20,433,487
State funds	12,183,829	11,183,829
Bond funds	2,432,640	2,403,368
Customer deposits	721,055	758,279
Special assessment fund for storage	273,829	273,829
Source development fund assessments	192,378	192,525
Total	$ 36,188,231	$ 35,245,317

At June 30, 2020, and 2019 construction voucher and contract payables, including retentions, to be paid with restricted assets were approximately $405,000 and $789,000, respectively. Construction contract commitments as of June 30, 2020 and 2019, to be paid with restricted assets, aggregated approximately $8.6 million and $7.4 million, respectively.

NOTE 3 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for an asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a level 2 input must be observable for most of the full term of the asset or liability. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets,
- Quoted prices for identical or similar assets or liabilities in markets that are not active,
- Inputs other than quoted prices that are observable for the asset or liability,
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2020 and 2019:

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

	Assets at Fair Value at June 30, 2019			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	$ 16,357,625	$ 16,357,625	$ --	$ --
U. S. government agency obligations	245,486,593	--	245,486,593	--
Municipal securities	23,478,199	--	23,478,199	--
Negotiable certificates of deposit	64,542,553	--	64,542,553	--
	$ 349,864,970	$ 16,357,625	$ 333,507,345	$ --

NOTE 4 - RESTRICTED NET POSITION

At June 30, 2020 and 2019, restricted net position consisted of the following:

	2020	2019
Water system development fee	$ 20,384,500	$ 20,433,487
Special assessment fund for storage	273,829	273,829
Source development fund assessments	192,378	192,525
Other restricted funds	12,257,752	11,255,948
Total	$ 33,108,459	$ 32,155,789

NOTE 5 - CAPITAL CONTRIBUTIONS

Capital contributions during the fiscal years ended June 30, 2020, and 2019 were as follows:

	2020	2019
Dedication of infrastructure assets	$ 3,956,443	$ 4,651,905
Source development fund assessments	2,089,242	8,429,220
Other	199,281	1,194,957
Total	$ 6,244,966	$ 14,276,082

NOTE 6 - CAPITAL ASSETS

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

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

NOTE 6 - CAPITAL ASSETS (Continued)

Capital assets activity during the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Reductions/ Retirements	Balance June 30, 2019
Non-depreciable assets				
Land	$ 7,905,059	$ --	$ --	$ 7,905,059
Construction in progress	48,842,240	11,878,768	(26,302,217)	34,418,791
	56,747,299	11,878,768	(26,302,217)	42,323,850
Depreciable assets				
Buildings and systems	165,974,212	11,580,688	--	177,554,900
Machinery and equipment	424,277,276	20,738,890	(15,541)	445,000,625
Infrastructure	11,791,972	135,250	--	11,927,222
	602,043,460	32,454,828	(15,541)	634,482,747
Accumulated depreciation				
Buildings and systems	75,767,687	3,933,686	--	79,701,373
Machinery and equipment	222,271,454	11,699,828	(15,541)	233,955,741
Infrastructure	4,801,843	233,953	--	5,035,796
	302,840,984	15,867,467	(15,541)	318,692,910
Total Capital Assets	$ 355,949,775	$ 28,466,129	$ (26,302,217)	$ 358,113,687

NOTE 7 - LONG-TERM LIABILITIES

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

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

A summary of changes in long-term liabilities of the Department for the fiscal year ended June 30, 2019, are as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Bonds payable	$ 21,719,327	$ 4,621,644	$ 2,921,909	$ 23,419,062	$ 2,950,708
Notes payable from direct borrowings	46,123,084	5,208,692	5,933,794	45,397,982	2,349,064
Accrued vacation payable	1,865,812	808,309	920,556	1,753,565	865,175
Accrued compensatory time off	125,292	101,377	112,404	114,265	114,265
Claims and judgments	844,093	322,946	654,099	512,940	512,940
Total	$ 70,677,608	$ 11,062,968	$ 10,542,762	$ 71,197,814	$ 6,792,152

NOTE 8 - BONDS PAYABLE

At June 30, 2020 and 2019, bonds payable consisted of the following:

	2020	2019
General Obligation Refunding Bonds, 2010 Series B, due in annual installments through 2021, interest payable semi-annually from 4.0% to 5.0%.	$ 434,195	$ 851,614
General Obligation Refunding Bonds, 2012 Series B, due in annual installments through 2032, interest payable semi-annually from 2.1% to 5.0%.	2,886,722	3,073,430
General Obligation Refunding Bonds, 2012 Series C, due in annual installments through 2023, interest payable semi-annually from 4.0% to 5.0%.	3,110,000	4,050,000
General Obligation Refunding Bonds, 2014 Series C, due in annual installments through 2034, interest payable semi-annually from 3.0% to 5.0%.	5,295,000	5,570,000
General Obligation Refunding Bonds, 2015 Series B, due in annual installments through 2020, interest payable semi-annually at 5.0%.	--	575,469
General Obligation Refunding Bonds, 2015 Series D, due in annual installments through 2027, interest payable semi-annually from 3.0% to 5.0%.	2,661,504	2,972,616
General Obligation Refunding Bonds, 2018 Series C, due in annual installments through 2032, interest payable semi-annually from 3.0% to 5.0%.	3,795,000	4,040,000
	18,182,421	21,133,129
Less current portion	(2,472,697)	(2,950,708)
	15,709,724	18,182,421
Unamortized premium	1,930,982	2,285,933
Noncurrent portion	$ 17,640,706	$ 20,468,354

NOTE 8 - BONDS PAYABLE (Continued)

Future bond principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	$ 2,472,697	$ 744,104	$ 3,216,801
2022	2,139,184	624,161	2,763,345
2023	2,251,742	516,392	2,768,134
2024	1,213,545	416,164	1,629,709
2025	1,267,174	361,109	1,628,283
2026 - 2030	5,716,341	1,095,032	6,811,373
2031 - 2034	3,121,738	204,952	3,326,690
Total	$ 18,182,421	$ 3,961,914	$ 22,144,335

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

NOTE 9 - NOTES PAYABLE

At June 30, 2020 and 2019, notes payable from direct borrowings consisted of the following:

	2020	2019
Notes payable to State of Hawaii, Department of Health		
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2032.	152,563	164,473
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.50%, and loan fee rate of 1.00%, maturing in 2033.	1,469,925	1,583,611
Balance forward	$ 1,622,488	$ 1,748,084

NOTE 9 - NOTES PAYABLE (Continued)

	2020	2019
Notes payable to State of Hawaii, Department of Health		
Balance carried forward	$ 1,622,488	$ 1,748,084
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2033.	582,478	624,190
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.00%, and loan fee rate of 1.00%, maturing in 2033.	5,362,194	5,774,670
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.50%, and loan fee rate of 1.00%, maturing in 2034.	3,026,609	3,242,756
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2034.	1,482,861	1,581,035
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2035.	538,586	571,708
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2035.	586,985	623,072
Balance forward	$ 13,202,201	$ 14,165,515

NOTE 9 - NOTES PAYABLE (Continued)

	2020	2019
Notes payable to State of Hawaii, Department of Health		
Balance carried forward	$ 13,202,201	$ 14,165,515
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2034.	111,865	119,568
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2038.	1,693,893	1,711,713
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.50%, and loan fee rate of 1.00%, maturing in 2037.	1,982,786	2,084,482
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2037.	1,073,004	1,125,538
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 1.00%, and loan fee rate of 1.00%, maturing in 2037.	447,060	468,979
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.00%, and loan fee rate of 1.00%, maturing in 2039.	20,488,995	20,937,537
Balance forward	$ 38,999,804	$ 40,613,332

NOTE 9 - NOTES PAYABLE (Continued)

	2020	2019
Notes payable to State of Hawaii, Department of Health		
Balance carried forward	$ 38,999,804	$ 40,613,332
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.50%, and loan fee rate of 1.00%, maturing in 2038.	3,135,147	3,251,807
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest at a rate of 0.75%, and loan fee rate of 1.00%, maturing in 2041.	3,439,400	1,532,843
	45,574,351	45,397,982
Less current portion	(2,550,020)	(2,349,064)
	$ 43,024,331	$ 43,048,918

As of June 30, 2020, future principal and interest payments for notes payable from direct borrowings are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	$ 2,550,020	$ 587,031	$ 3,137,050
2022	2,572,828	554,462	3,127,289
2023	2,596,862	520,627	3,117,489
2024	2,621,140	486,509	3,107,649
2025	2,645,905	451,864	3,097,769
2026 - 2030	13,610,068	1,729,121	15,339,189
2031- 2035	12,531,278	827,261	13,358,540
Thereafter	6,446,250	160,585	6,606,835
Total	$ 45,574,351	$ 5,317,460	$ 50,891,810

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 10 - RETIREMENT BENEFITS

Pension Plan

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

Benefits Provided - The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

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

<u>*Noncontributory Class*</u>

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

NOTE 10 - RETIREMENT BENEFITS (Continued)

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

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

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/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 5 years of credited service are eligible to retire at age 55.

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

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten 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.

NOTE 10 - RETIREMENT BENEFITS (Continued)

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

Contributory Class for Employees Hired After June 30, 2012

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

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

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

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

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

Hybrid Class for Employees Hired Prior to July 1, 2012

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

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

NOTE 10 - RETIREMENT BENEFITS (Continued)

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

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

Hybrid Class for Employees Hired After June 30, 2012

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

Disability and Death Benefits - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, 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 ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions - Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. Contributions to the pension plan from the Department were $2,953,047 and $2,459,961 for the fiscal years ended June 30, 2020 and 2019, respectively.

NOTE 10 - RETIREMENT BENEFITS (Continued)

Per Act 17 (SLH 2017), employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for police officers and firefighters increases to 31.00% on July 1, 2018; and increases to 36.00% on July 1, 2019; and 41.00% on July 1, 2020 and the rate for all other employees' increased to 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012, are required to contribute 7.8% of their salary 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, 2020 and 2019, the Department reported a liability of $43,112,852 and $41,040,357, for its proportionate share of net pension liability of the County. The net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Department's proportion of the net pension liability was based on a proportion of the Department's contributions to the pension plan relative to the project contributions of the County. At June 30, 2019, the Department's proportion of the County's proportion was 6.6496% which was a decrease of 0.2171% from its proportion measured as of June 30, 2018. At June 30, 2018, the Department's proportion of the County's proportion was 6.8667% which was an increase of 0.3075% from its proportion measured as of June 30, 2017.

There were no other changes between the measurement dates, June 30, 2019 and 2018, and the reporting dates, June 30, 2020 and 2019 that are expected to have a significant effect on the proportionate share of the net pension liability.

NOTE 10 - RETIREMENT BENEFITS (Continued)

For the fiscal years ended June 30, 2020 and 2019, the Department recognized pension expense of $3,138,921 and $1,648,171. At June 30, 2020 and 2019, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 756,336	$ 137,507
Net difference between projected and actual earnings on pension plan investments	106,774	--
Changes in proportion and difference between Department contributions and proportionate share of contributions	971,245	322,812
Changes of assumptions	3,248,054	--
Department contributions subsequent to the measurement date	2,953,047	--
	$ 8,035,456	$ 460,319

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 741,443	$ 301,719
Net difference between projected and actual earnings on pension plan investments	16,877	--
Changes in proportion and difference between Department contributions and proportionate share of contributions	1,411,571	369,448
Changes of assumptions	4,675,507	--
Department contributions subsequent to the measurement date	2,459,961	--
	$ 9,305,359	$ 671,167

At June 30, 2020, the $2,953,047 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, 2021.

NOTE 10 - RETIREMENT BENEFITS (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2020 will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2021	$ 2,480,190
2022	1,208,405
2023	438,229
2024	402,240
2025	93,026
Total	$ 4,622,090

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was based on the results of an experience study as of June 30, 2018, with most of the assumptions based on the period from July 1, 2013 through June 30, 2018. The actuarial assumptions used in the actuarial valuation as of June 30, 2018 was based on the results of an actuarial experience study for the five-year period ended June 30, 2015:

	2019	2018
Inflation	2.50%	2.50%
Investment rate of return, including inflation	7.00%	7.00%
Payroll growth	0.00%	3.50%
Salary increases, including inflation		
Police and fire employees	5.00% to 7.00%	5.00% to 7.00%
General employees	3.50% to 6.50%	3.50% to 6.50%
Teachers	3.75% to 5.75%	3.75% to 5.75%

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

Mortality rates used in the actuarial valuation as of June 30, 2019 and 2018 were based on the following:

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

Healthy retirees - 2019: The 2019 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2019 and with multipliers based on plan and group experience. 2018: The 2016 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2016 and with multipliers based on plan and group experience.

NOTE 10 - RETIREMENT BENEFITS (Continued)

Disabled retirees - 2019: Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2019. Minimum mortality rate of 3.5% for males and 2.5% for females. 2018: Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2016. Minimum mortality rate of 3.5% for males and 2.5% for females.

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

Strategic Allocation (Risk-Based Classes)	Target Allocation	Long-Term Expected Rate of Return		Long-Term Expected Real Rate of Return*	
		2019	2018	2019	2018
Broad growth	63.00%	7.65%	7.10%	5.40%	4.85%
Principal protection	7.00%	3.00%	2.50%	0.75%	0.25%
Real return	10.00%	4.55%	4.10%	2.30%	1.85%
Crisis risk offset	20.00%	5.15%	4.60%	2.90%	2.35%
	100.00%				

*Uses an expected inflation of 2.25%

Discount Rate - The discount rate used to measure the net pension liability at June 30, 2020 and 2019 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.

NOTE 10 - 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, 2020 and 2019, calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	June 30, 2020		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	$ 53,906,836	$ 43,112,852	$ 32,654,172

	June 30, 2019		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	$ 48,032,824	$ 41,040,357	$ 27,793,326

Pension Plan Fiduciary Net Position

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

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

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

Payables to the Pension Plan

As of June 30, 2020 and 2019, the Department had $1,022,694 and $487,502, respectively, payable to the pension plan.

NOTE 10 - RETIREMENT BENEFITS (Continued)

Postemployment Benefits Other Than Pensions (OPEB)

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

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

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

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

Employees Covered by Benefit Terms - At July 1, 2019 and 2018, the following number of plan members were covered by the benefit terms:

	2019	2018
Inactive employees or their beneficiaries currently receiving benefits	1,611	1,534
Inactive employees entitled to but not yet receiving benefits	280	269
Active members	2,467	2,463
Total	4,358	4,266

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.

NOTE 10 - RETIREMENT BENEFITS (Continued)

The County allocates the ARC to the various departments and agencies based upon a systematic methodology. The Department's contributions paid to the County for the fiscal years ended June 30, 2020 and 2019 were $3,718,455 and $3,044,435, 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, 2020 and 2019, the Department's share of the net OPEB liability was $24,007,403 and 23,903,694, respectively. The net OPEB liability was measured as of July 1, 2019 and 2018, and the total OPEB liability to calculate the net OPEB liability was determined by an actuarial valuation as of those dates.

There were no changes between the measurement date, July 1, 2019, and the reporting date, June 30, 2020, that are expected to have a significant effect on the net OPEB liability.

For the fiscal years ended June 30, 2020 and 2019, the Department recognized OPEB expense of $1,574,292 and $622,706, respectively. At June 30, 2020 and 2019, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 255,134	$ 378,657
Net difference between projected and actual earnings on OPEB plan investments	283,695	--
Changes of assumptions	531,114	--
Department contributions subsequent to the measurement date	3,718,455	--
	$ 4,788,398	$ 378,657

	June 30, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ --	$ 461,685
Net difference between projected and actual earnings on OPEB plan investments	--	258,427
Changes of assumptions	407,417	--
Department contributions subsequent to the measurement date	3,044,435	--
	$ 3,451,852	$ 720,112

NOTE 10 - RETIREMENT BENEFITS (Continued)

At June 30, 2020, the $3,718,455 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, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2020 will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,	Net Deferred Outflows
2021	$ 95,247
2022	95,247
2023	174,711
2024	186,834
2025	69,399
Thereafter	69,848
	$ 691,286

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

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%

Healthcare cost trend rates

PPO	Initial rate of 8.00%, declining to a rate of 4.86% after 12 years
HMO*	Initial rate of 8.00%; declining to a rate of 4.86% after 12 years
Contribution	Initial rate of 5.00%; declining to a rate of 4.70% after 11 years
Dental	Initial rate of 5.00% for the first two years; followed by 4.00%
Vision	Initial rate of 0.00% for the first two years, followed by 2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drug

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%

NOTE 10 - RETIREMENT BENEFITS (Continued)

Healthcare cost trend rates

PPO	Initial rate of 10.00%, declining to a rate of 4.86% after 13 years
HMO*	Initial rate of 10.00%, declining to a rate of 4.86% after 13 years
Contribution	Initial rates of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental	Initial rates of 5.00% for the first three years; followed by 4.00%
Vision	Initial rates of 0.00% for the first three years; followed by 2.50%
Life insurance	0.00%

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

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, 2019 and 2018 are summarized in the following table:

	2019		2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
International equity	17.00%	6.90%	17.00%	6.50%
U.S. equity	15.00%	5.35%	15.00%	5.05%
Private equity	10.00%	8.80%	10.00%	8.65%
Core real estate	10.00%	3.90%	10.00%	4.10%
Trend following	9.00%	3.25%	9.00%	3.00%
U.S. microcap	7.00%	7.30%	7.00%	7.00%
Global options	7.00%	4.75%	7.00%	4.50%
Private credit	6.00%	5.60%	6.00%	5.25%
Long treasuries	6.00%	2.00%	6.00%	1.90%
Alternate risk premium	5.00%	2.75%	5.00%	2.45%
TIPS	5.00%	1.20%	5.00%	0.75%
Core bonds	3.00%	1.50%	3.00%	1.30%
	100.00%		100.00%	

Single Discount rate - The discount rate used to measure the total OPEB liability at June 30, 2020 and 2019 was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.62% (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 County’s funding policy is to pay the

NOTE 10 - RETIREMENT BENEFITS (Continued)

recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

Changes in the Net OPEB Liability

The following schedule presents the changes in the net OPEB liability for the fiscal year ended June 30, 2020 and 2019. The ending balances are as of the measurement dates, July 1, 2019 and 2018.

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

NOTE 10 - RETIREMENT BENEFITS (Continued)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2018	$ 39,568,747	$ 15,531,578	$ 24,037,169
Changes for the fiscal year:			
Service cost	910,032	--	910,032
Interest on the total OPEB liability	2,711,292	--	2,711,292
Contributions - employer	--	2,528,321	(2,528,321)
Net investment income	--	1,166,847	(1,166,847)
Difference between expected and actual experience	(537,699)	--	-- (537,699)
Benefit payments	474,496	--	474,496
Administrative expense	(1,262,979)	(1,262,979)	--
Other	--	(3,572)	3,572
Net changes	2,295,142	2,428,617	(133,475)
Balance at June 30, 2019	$ 41,863,889	$ 17,960,195	$ 23,903,694

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

	June 30, 2020		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	$ 33,806,953	$ 24,007,403	$ 19,470,989

	June 30, 2019		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net OPEB liability	$ 30,470,113	$ 23,903,694	$ 18,054,176

NOTE 10 - RETIREMENT BENEFITS (Continued)

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

	June 30, 2020		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Department's proportionate share of the net OPEB liability	$ 19,195,040	$ 24,007,403	$ 34,290,940

	June 30, 2019		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Department's proportionate share of the net OPEB liability	$ 17,758,150	$ 23,903,694	$ 30,973,725

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.

NOTE 11 - SICK LEAVE

Accrued sick leave aggregated to approximately $5.1 million and $5.0 million as of June 30, 2020 and 2019, respectively. Sick leave can accumulate at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a County employee who is vested in the retirement system and retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS.

NOTE 12 - RISK MANAGEMENT

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

SUPPLEMENTARY INFORMATION

Department of Water Supply
County of Maui
SCHEDULE I - SCHEDULE OF CAPITAL ASSETS
Fiscal Year Ended June 30, 2020

Description	Balance July 1, 2019	Additions and Transfers	Retirements	Balance June 30, 2020	Accumulated Depreciation July 1, 2019	Additions	Retirements	Accumulated Depreciation June 30, 2020
Land	$ 7,905,059	$ 102,086	$ --	$ 8,007,145	$ --	$ --	$ --	$ --
Source of Supply Structures	12,306,282	1,336,965	--	13,643,247	598,479	791,017	--	1,389,496
Collecting and Impounding Reservoirs	4,251,683	--	--	4,251,683	3,715,047	53,716	--	3,768,763
Wells & Springs	20,831,410	2,837,870	--	23,669,280	4,762,789	1,570,704	--	6,333,493
Power & Pumping Structures	20,714,841	2,587,260	--	23,302,101	2,725,155	467,784	--	3,192,939
Purification Buildings	34,656,213	640,722	--	35,296,935	31,814,780	708,720	--	32,523,500
Distribution Reservoirs	81,181,062	6,766,803	--	87,947,865	33,367,491	2,182,481	--	35,549,972
Office Building	1,672,930	--	--	1,672,930	1,232,751	32,266	--	1,265,017
Field Operation Building	1,349,400	--	--	1,349,400	894,296	32,241	--	926,537
Utility Plant - Unclassified	591,079	--	--	591,079	590,585	374	--	590,959
Electric Pumping Equipment	38,245,717	3,442,097	--	41,687,814	27,071,685	1,958,611	--	29,030,296
Other Power Pumping Equipment	2,708,773	722,012	--	3,430,785	2,384,785	142,189	--	2,526,974
Purification System - Chlorinators	6,578,061	1,506,493	--	8,084,554	3,100,858	583,414	--	3,684,272
Purification System - Filter Plants	56,692,642	492,649	--	57,185,291	45,489,287	1,367,830	--	46,857,117
Transmission & Distribution Mains	314,585,998	7,380,997	--	321,966,995	138,028,115	7,220,577	--	145,248,692
Service Laterals	4,410,276	199,281	--	4,609,557	2,643,487	145,900	--	2,789,387
Meters	8,923,346	61,492	--	8,984,838	5,879,106	401,185	--	6,280,291
Office Furniture & Equipment	54,155	--	--	54,155	35,347	2,221	--	37,568
Stores Equipment	198,385	--	--	198,385	115,254	5,275	--	120,529
Shop Equipment	72,674	--	--	72,674	67,027	922	--	67,949
Laboratory Equipment	535,995	--	--	535,995	354,038	20,908	--	374,946
Work Equipment	4,141,508	677,911	(23,463)	4,795,956	1,734,309	197,199	(23,463)	1,908,045
Communication Equipment	1,682,737	--	--	1,682,737	1,309,575	71,332	--	1,380,907
Meter Boxes	291,058	--	--	291,058	291,058	--	--	291,058
Hydrants	11,316,491	532,102	--	11,848,593	4,600,845	223,403	--	4,824,248
Standpipes	246,277	--	--	246,277	217,323	3,827	--	221,150
	636,144,052	29,286,740	(23,463)	665,407,329	313,023,472	18,184,096	(23,463)	331,184,105
Office Machines	666,070	--	--	666,070	595,332	22,644	--	617,976
Transportation Equipment	5,577,684	222,967	(211,939)	5,588,712	5,074,106	257,979	(211,939)	5,120,146
Total Capital Assets (1)	$ 642,387,806	$ 29,509,707	$ (235,402)	$ 671,662,111	$ 318,692,910	$ 18,464,719	$ (235,402)	$ 336,922,227
Construction in Aid		$ 4,442,186						
Capital Replacement Fund		6,661,379						
State Revolving Fund		9,647,447						
Construction in Aid - Direct		1,216,004						
Revenue Fund		1,202,202						
Water System Development Fund		565,564						
State Grant		2,500,000						
1991 Construction Fund		1,907,532						
Water Source Development Fund		1,367,393						
		$ 29,509,707						

(1) Excludes construction in progress.

Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS
June 30, 2020

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2020	Payable Within One Year
G.O. Refunding Bonds, 2010 Series B (a)								
	2021	4.000	12/1/2010	6/1/2021	6/1/2020	$ 434,195	$ 434,195	$ 434,195
Total 2010 Series B Issue						434,195	434,195	434,195
G.O. Refunding Bonds, 2012 Series B (b)								
	2021	5.000	11/1/2012	6/1/2021	Noncallable	196,382	196,382	196,382
	2022	5.000	11/1/2012	6/1/2022	Noncallable	206,056	206,056	--
	2023	4.000	11/1/2012	6/1/2023	Noncallable	216,214	216,214	--
	2024	2.125	11/1/2012	6/1/2024	6/1/2023	224,921	224,921	--
	2025	3.000	11/1/2012	6/1/2025	6/1/2023	229,758	229,758	--
	2026	3.000	11/1/2012	6/1/2026	6/1/2023	236,529	236,529	--
	2027	3.000	11/1/2012	6/1/2027	6/1/2023	243,785	243,785	--
	2028	3.000	11/1/2012	6/1/2028	6/1/2023	251,040	251,040	--
	2029	3.000	11/1/2012	6/1/2029	6/1/2023	258,779	258,779	--
	2030	3.000	11/1/2012	6/1/2030	6/1/2023	266,519	266,519	--
	2031	3.000	11/1/2012	6/1/2031	6/1/2023	274,258	274,258	--
	2032	3.000	11/1/2012	6/1/2032	6/1/2023	282,481	282,481	--
Total 2012 Series B Issue						2,886,722	2,886,722	196,382
G.O. Refunding Bonds, 2012 Series C (c)								
	2021	5.000	11/1/2012	6/1/2021	Noncallable	985,000	985,000	985,000
	2022	5.000	11/1/2012	6/1/2022	Noncallable	1,035,000	1,035,000	--
	2023	4.000	11/1/2012	6/1/2023	Noncallable	1,090,000	1,090,000	--
Total 2012 Series C Issue						$ 3,110,000	$ 3,110,000	$ 985,000

Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS (Continued)
June 30, 2020

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2020	Payable Within One Year
G.O. Refunding Bonds, 2014 Series C (d)								
	2021	5.000	12/1/2014	6/1/2021	Noncallable	$ 290,000	$ 290,000	$ 290,000
	2022	5.000	12/1/2014	6/1/2022	Noncallable	305,000	305,000	--
	2023	5.000	12/1/2014	6/1/2023	Noncallable	320,000	320,000	--
	2024	5.000	12/1/2014	6/1/2024	Noncallable	335,000	335,000	--
	2025	3.000	12/1/2014	6/1/2025	6/1/2024	350,000	350,000	--
	2026	3.000	12/1/2014	6/1/2026	6/1/2024	360,000	360,000	--
	2027	4.000	12/1/2014	6/1/2027	6/1/2024	370,000	370,000	--
	2028	3.000	12/1/2014	6/1/2028	6/1/2024	385,000	385,000	--
	2029	3.000	12/1/2014	6/1/2029	6/1/2024	400,000	400,000	--
	2030	3.000	12/1/2014	6/1/2030	6/1/2024	410,000	410,000	--
	2031	3.125	12/1/2014	6/1/2031	6/1/2024	420,000	420,000	--
	2032	3.250	12/1/2014	6/1/2032	6/1/2024	435,000	435,000	--
	2033	3.250	12/1/2014	6/1/2033	6/1/2024	450,000	450,000	--
	2034	3.250	12/1/2014	6/1/2034	6/1/2024	465,000	465,000	--
Total 2014 Series C Issue						5,295,000	5,295,000	290,000
G.O. Refunding Bonds, 2015 Series D (f)								
	2021	5.000	3/1/2016	9/1/2021	Noncallable	327,120	327,120	327,120
	2022	5.000	3/1/2016	9/1/2022	Noncallable	343,128	343,128	--
	2023	5.000	3/1/2016	9/1/2023	Noncallable	360,528	360,528	--
	2024	5.000	3/1/2016	9/1/2024	Noncallable	378,624	378,624	--
	2025	5.000	3/1/2016	9/1/2025	Noncallable	397,416	397,416	--
	2026	3.000	3/1/2016	9/1/2026	9/1/2025	416,904	416,904	--
	2027	3.000	3/1/2016	9/1/2027	9/1/2025	437,784	437,784	--
Total 2015 Series D Issue						$ 2,661,504	$ 2,661,504	$ 327,120

Department of Water Supply
County of Maui
SCHEDULE II - SCHEDULE OF LONG-TERM DEBT - GENERAL OBLIGATION BONDS (Continued)
June 30, 2020

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2020	Payable Within One Year
G.O. Refunding Bonds, 2018 Series C (g)								
	2021	5.000	9/1/2018	9/1/2021	Noncallable	$ 240,000	$ 240,000	$ 240,000
	2022	5.000	9/1/2018	9/1/2022	Noncallable	250,000	250,000	--
	2023	5.000	9/1/2018	9/1/2023	Noncallable	265,000	265,000	--
	2024	5.000	9/1/2018	9/1/2024	Noncallable	275,000	275,000	--
	2025	5.000	9/1/2018	9/1/2025	Noncallable	290,000	290,000	--
	2026	5.000	9/1/2018	9/1/2026	Noncallable	305,000	305,000	--
	2027	5.000	9/1/2018	9/1/2027	Noncallable	320,000	320,000	--
	2028	5.000	9/1/2018	9/1/2028	Noncallable	335,000	335,000	--
	2029	5.000	9/1/2018	9/1/2029	9/1/2028	350,000	350,000	--
	2030	5.000	9/1/2018	9/1/2030	9/1/2028	370,000	370,000	--
	2031	4.000	9/1/2018	9/1/2031	9/1/2028	390,000	390,000	--
	2032	3.000	9/1/2018	9/1/2032	9/1/2028	405,000	405,000	--
Total 2018 Series C Issue						3,795,000	3,795,000	240,000
Total General Obligation Bonds						$ 18,182,421	$ 18,182,421	$ 2,472,697

NOTES:

(a) The General Obligation Refunding Bonds, 2010, Series B, maturing on or before June 1, 2020 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on June 1, 2021, prior to their stated maturity, on or after June 1, 2020, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.

(b) The General Obligation Refunding Bonds, 2012, Series B, maturing on or before June 1, 2023 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on June 1, 2024 to June 1, 2032, prior to their stated maturity, on or after June 1, 2023, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.

(c) The General Obligation Refunding Bonds, 2012, Series C, maturing before June 1, 2023 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates.

(d) The General Obligation Refunding Bonds, 2014, Series C, maturing on or before June 1, 2024 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on June 1, 2025 to June 1, 2034, prior to their stated maturity, on or after June 1, 2024, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.

(e) The General Obligation Refunding Bonds, 2015, Series B, maturing before September 1, 2025 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates.

(f) 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.

(g) 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, 2019 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.

PART II

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

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

To the Board of Water Supply
County of Maui

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County of Maui, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

N&K CPAs, Inc.

Honolulu, Hawaiʻi
December 23, 2020