

**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, 2014 and 2013



**DEPARTMENT OF WATER SUPPLY
COUNTY OF MAUI**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Gladys C. Baisa, Chair,
and Members of the Council
County of Maui
Wailuku, Maui, Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Water Supply of the County of Maui (the Department), a proprietary fund of the County of Maui, as of and for the fiscal year ended June 30, 2014, and the related notes to 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 audit. We conducted our audit 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 2014 financial statements referred to above present fairly, in all material respects, the financial position of the Department, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the County of Maui that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the County of Maui as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adjustment to Prior Period Financial Statements

The financial statements of the Department as of June 30, 2013, were audited by other auditors whose report dated February 20, 2014, expressed an unmodified opinion on those financial statements. Their report included an emphasis of matters paragraph on the presentation of the Department's financial as discussed in Note 1 to the financial statements. As discussed in Note 13 to the financial statements, the Department has adjusted its 2013 financial statements to retroactively apply the change in accounting for deferred bond costs and the unamortized loss on advanced refunding of bonds as required by the provisions of Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit on the 2014 financial statements, we also audited the adjustments to the 2013 financial statements to retroactively apply the change in accounting as described in Note 13. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Department's 2013 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

Other Matters

Supplementary 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 and of long-term debt general obligation bonds as of June 30, 2014 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules of capital assets and of long-term debt general obligation bonds as of June 30, 2014 are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
January 22, 2015

**Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION
June 30, 2014 and 2013**

	2014	2013 (as restated)
ASSETS		
CURRENT ASSETS		
Unrestricted:		
Equity in pooled cash and investments held in County Treasury	\$ 44,624,245	\$ 35,509,906
Customer receivables		
Billed	3,203,898	3,614,200
Less: allowance for doubtful accounts	<u>(132,228)</u>	<u>(136,266)</u>
	3,071,670	3,477,934
Unbilled	<u>2,630,050</u>	<u>2,698,263</u>
Total customer receivables	<u>5,701,720</u>	<u>6,176,197</u>
Due from other fund	--	5,037,984
Materials and supplies	991,864	1,027,825
Other current assets	<u>317,974</u>	<u>657,905</u>
Total current unrestricted assets	<u>51,635,803</u>	<u>48,409,817</u>
RESTRICTED ASSETS		
Equity in pooled cash and investments held in County Treasury	<u>17,315,274</u>	<u>17,525,203</u>
Total current assets	<u>68,951,077</u>	<u>65,935,020</u>
CAPITAL ASSETS		
Utility plant in service	513,392,196	508,959,005
Less accumulated depreciation	<u>(243,492,384)</u>	<u>(228,236,922)</u>
	269,899,812	280,722,083
Construction work in progress	<u>49,734,238</u>	<u>32,618,993</u>
Total capital assets	<u>319,634,050</u>	<u>313,341,076</u>
TOTAL ASSETS	<u>388,585,127</u>	<u>379,276,096</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advanced refunding	<u>171,477</u>	<u>225,627</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>171,477</u>	<u>225,627</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 388,756,604</u>	<u>\$ 379,501,723</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF NET POSITION (Continued)
June 30, 2014 and 2013**

	2014	2013 (as restated)
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Payable from unrestricted current assets		
Bonds payable, current portion	\$ 2,408,969	\$ 2,318,564
Notes payable, current portion	950,412	288,824
Accounts payable	1,832,747	2,240,829
Accrued vacation, current portion	774,621	733,316
Construction contracts payable, including retainages	146,600	480,965
Claims and judgments	661,432	472,868
Accrued interest payable	288,289	292,235
Customer advances for utility construction	128,556	180,637
	<u>7,191,626</u>	<u>7,008,238</u>
Payable from restricted assets		
Construction contracts payable, including retainages	3,572,193	1,509,684
Customer deposits	679,354	1,661,183
Refundable advances	1,000,000	1,000,000
	<u>5,251,547</u>	<u>4,170,867</u>
Total current liabilities	<u>12,443,173</u>	<u>11,179,105</u>
NON-CURRENT LIABILITIES		
Bonds payable, non-current portion	23,192,846	25,868,453
Notes payable, non-current portion	16,721,261	4,973,501
Accrued vacation, non-current portion	1,296,934	1,273,039
Accrued postemployment benefits	--	5,037,984
Total non-current liabilities	<u>41,211,041</u>	<u>37,152,977</u>
Total liabilities	<u>53,654,214</u>	<u>48,332,082</u>
NET POSITION		
Net investment in capital assets	278,030,204	283,818,659
Restricted	13,081,563	12,283,636
Unrestricted	43,990,623	35,067,346
Total net position	<u>335,102,390</u>	<u>331,169,641</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 388,756,604</u>	<u>\$ 379,501,723</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30, 2014 and 2013**

	2014	2013 (as restated)
OPERATING REVENUES		
Water sales	\$ 54,271,046	\$ 53,715,617
Other revenues	<u>973,567</u>	<u>723,273</u>
Total operating revenues	<u>55,244,613</u>	<u>54,438,890</u>
OPERATING EXPENSES		
Depreciation and amortization	15,383,921	14,586,660
Power and pumping	13,776,524	13,448,910
Administrative and general	10,316,017	8,854,280
Purification	6,654,755	7,079,279
Transmission and distribution	6,169,071	6,690,848
Customers' accounting and collection	1,531,823	1,189,496
Source of supply	<u>631,195</u>	<u>654,414</u>
Total operating expenses	<u>54,463,306</u>	<u>52,503,887</u>
Operating income	<u>781,307</u>	<u>1,935,003</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense, net of interest capitalized of \$75,761 in 2014 and \$159,925 in 2013	(1,075,887)	(1,108,196)
Interest and investment earnings	284,962	130,983
Other revenues, net	<u>734,545</u>	<u>47,399</u>
Total nonoperating expenses, net	<u>(56,380)</u>	<u>(929,814)</u>
Income before capital contributions	724,927	1,005,189
Capital contributions	<u>3,207,822</u>	<u>5,551,828</u>
INCREASE IN NET POSITION	3,932,749	6,557,017
NET POSITION AT BEGINNING OF FISCAL YEAR, as previously reported	331,169,641	324,685,585
Prior period adjustment	--	<u>(72,961)</u>
NET POSITION AT BEGINNING OF FISCAL YEAR, as restated	<u>331,169,641</u>	<u>324,612,624</u>
NET POSITION AT END OF FISCAL YEAR	<u>\$ 335,102,390</u>	<u>\$ 331,169,641</u>

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2014 and 2013**

	2014	2013 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	\$ 55,719,090	\$ 56,057,879
Payments to suppliers for goods and services	(27,364,965)	(28,641,933)
Payments to employees for services	(9,764,702)	(9,265,938)
Refunds of utility construction advances	(1,033,910)	(175,672)
Advances received for utility construction	--	88,450
Net cash provided by operating activities	17,555,513	18,062,786
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment earnings received from investments	284,962	130,983
Net cash provided by investing activities	284,962	130,983
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for acquisition of construction of capital assets, including capitalized interest	(19,893,673)	(15,707,992)
Principal paid on bonds and notes	(2,841,180)	(13,048,237)
Proceeds from bonds and notes payable	12,931,963	17,219,726
Cash received from capital contributions, net	1,424,600	1,906,253
Interest paid on bonds and notes payable	(1,292,320)	(1,149,353)
Other	734,545	153,931
Net cash used in capital and related financing activities	(8,936,065)	(10,625,672)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,904,410	7,568,097
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	53,035,109	45,467,012
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	\$ 61,939,519	\$ 53,035,109

**Department of Water Supply
County of Maui
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2014 and 2013**

	2014	2013 (as restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 781,307	\$ 1,935,003
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	15,383,921	14,586,660
Net bad debt (recoveries) expense	73,859	(189,875)
Changes in assets and liabilities		
Customer receivables	400,618	1,764,417
Materials and supplies	35,961	603,222
Other assets	339,931	(49,578)
Accounts payable	1,385,262	(78,936)
Claims and judgments	188,564	(50,578)
Other liabilities and deposits	<u>(1,033,910)</u>	<u>(457,549)</u>
Net cash provided by operating activities	\$ <u>17,555,513</u>	\$ <u>18,062,786</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	\$ 1,783,222	\$ 3,645,575
Amortization of deferred loss on refunding	\$ 54,150	\$ 59,191
Amortization of bond premium/discount	\$ 266,637	\$ 161,082

See accompanying notes to financial statements.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Department applies all applicable GASB Statements and Interpretations.

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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

These classifications are defined as follows:

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

Total accounts receivable past due for over 90 days amounted to approximately \$224,400 and \$72,100 as of June 30, 2014 and 2013, respectively.

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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

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

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

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

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

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

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

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

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

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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

- (16) **Capitalization of Interest** - Interest costs are capitalized during the construction period of major capital projects.
- (17) **Water System Development Fee** - A water system development fee is levied against all new developments requiring water from the Department's systems, except those developments that have paid for and installed a complete water system, including source, transmission, and daily storage facilities. The amounts collected, net of costs incurred for water credits used to acquire additional water supply, are recorded as capital contributions.
- (18) **Capital Contributions** - The Department receives Federal and State of Hawaii grants to pay for portions of construction costs related to various capital projects. The Department also receives development fees and dedications of infrastructure assets for various developments. The amounts received are recorded as capital contributions in the accompanying statements of revenues, expenses, and changes in net position.
- (19) **Subsequent Events** - The Department evaluated subsequent events through January 22, 2015, the date the financial statements were available to be issued. Except for the item disclosed in Note 12, there were no subsequent events that required adjustment to or disclosure in the 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, 2014 and 2013, 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 \$61,939,519 and \$53,035,109, respectively.

County's Investment Policy

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

Specific requirements under the State statutes are as follows:

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2 - CASH AND INVESTMENTS (Continued)

- Investments are required to be rated Aaa by Moody's and AAA by Standard and Poor's.

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

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

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

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

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

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

Custodial credit risk for bank depository accounts is the risk that in the event of a bank failure, the County's deposits may not be returned. It is the County's policy to place its bank deposits with State of Hawaii high credit quality financial institutions that are able to meet the collateral requirements for the County's deposits. As of June 30, 2014 and 2013, all of the County's time certificates of deposits and cash deposits were insured and collateralized.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2014 and 2013, the investments in the County's investment pool were not subject to foreign currency risk.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

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% and 13% at June 30, 2014 and 2013, respectively.

As of June 30, 2014, the County's cash and investments were as follows:

Type of Investment	% Yield	Maturity				Premiums (Discounts)	Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	1 - 5 Years		
Federal National Mortgage Association Coupon Notes	0.24 - 1.89	\$ --	\$ 8,000,000	\$ --	\$ 47,010,000	\$ 132,098	\$ 55,142,098
Federal National Mortgage Association Discount Notes	0.06	--	700,000	--	--	(105)	699,895
Federal Home Loan Bank Bank Notes	0.16 - 1.79	--	20,000,000	18,000,000	5,250,000	134,714	43,384,714
Federal Home Loan Bank Discount Note	0.07 - 0.09	--	6,300,000	--	--	(1,053)	6,298,947
Federal Farm Credit Bank Notes	0.21 - 1.81	10,000,000	10,000,000	11,000,000	7,315,000	74,267	38,389,267
Federal Agricultural Mortgage Corporation Note	0.27 - 0.99	--	5,000,000	10,000,000	20,100,000	22,641	35,122,641
Federal Agricultural Mortgage Corporation Discount Note	0.08	--	12,000,000	--	--	(1,900)	11,998,100
Federal Home Loan Mortgage Corporation Notes	0.10 - 1.40	--	6,000,000	--	22,000,000	72,962	28,072,962
Federal Home Loan Mortgage Corporation Discount Notes	0.90 - 0.14	--	4,000,000	4,000,000	--	(4,096)	7,995,904
U.S. Treasury Strips	1.40	--	--	--	3,000,000	(165,152)	2,834,848
U.S. Treasury Notes	0.22 - 0.47	--	2,000,000	--	6,000,000	(7,805)	7,992,195
Total investments		\$ 10,000,000	\$ 74,000,000	\$ 43,000,000	\$ 110,675,000	\$ 256,571	237,931,571
Type of Deposits							
Various certificates of deposit	0.10 - 1.45	\$ --	--	--	\$ 2,420,253		2,420,253
					Total investments and certificates of deposit		240,351,824
					Cash on hand and deposits		56,221,135
					Total equity in pooled cash and investments	\$	296,572,959

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2 - CASH AND INVESTMENTS (Continued)

As of June 30, 2013, the County's cash and investments were as follows:

Type of Investment	% Yield	Maturity				Premiums (Discounts)	Carrying Value
		Under 30 Days	31-180 Days	181-365 Days	1 - 5 Years		
Federal National Mortgage Association Coupon Notes	0.13 - 1.89	\$ --	\$ 23,000,000	\$ 7,000,000	\$ 26,010,000	\$ 261,880	\$ 56,271,880
Federal National Mortgage Association Discount Notes	0.11 - 0.18	--	13,000,000	--	--	(3,555)	12,996,445
Federal Home Loan Bank Bank Notes	0.16 - 1.79	--	14,000,000	10,000,000	38,000,000	369,544	62,369,544
Federal Home Loan Bank Discount Note	0.15	5,000,000	--	--	--	(187)	4,999,813
Federal Farm Credit Bank Notes	0.17 - 0.47	--	10,000,000	20,000,000	38,000,000	50,085	68,050,085
Federal Agricultural Mortgage Corporation Note	0.27 - 0.88	--	--	--	36,000,000	1,981	36,001,981
Federal Agricultural Mortgage Corporation Discount Note	0.19	--	10,000,000	--	--	(3,422)	9,996,578
Federal Home Loan Mortgage Corporation Notes	0.15 - 0.25	--	13,000,000	20,000,000	10,000,000	128,725	43,128,725
Federal Home Loan Mortgage Corporation Discount Notes	0.14	--	--	5,000,000	--	(6,456)	4,993,544
U.S. Treasury Bills	0.15	5,000,000	--	--	--	(500)	4,999,500
U.S. Treasury Notes	0.17 - 0.21	--	<u>10,000,000</u>	<u>28,000,000</u>	<u>2,000,000</u>	<u>128,977</u>	<u>40,128,977</u>
Total investments		\$ <u>10,000,000</u>	\$ <u>93,000,000</u>	\$ <u>90,000,000</u>	\$ <u>150,010,000</u>	\$ <u>927,072</u>	343,937,072
Type of Deposits							
Various certificates of deposit	0.10 - 1.45	\$ --	\$ <u>981,647</u>	\$ <u>10,258,045</u>	\$ --		<u>11,239,692</u>
						Total investments and certificates of deposit	355,176,764
						Cash on hand and deposits	<u>65,138,387</u>
						Total equity in pooled cash and investments	\$ <u>420,315,151</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Unrestricted cash, cash equivalents, and investments at June 30, 2014 and 2013 include funds for the following purposes:

	<u>2014</u>	<u>2013</u>
Board-designated		
Capital improvements	\$ 19,378,440	\$ 10,715,783
Debt service	<u>1,343,017</u>	<u>1,214,225</u>
Total board-designated	20,721,457	11,930,008
Undesignated	<u>23,902,788</u>	<u>23,579,898</u>
Total	\$ <u>44,624,245</u>	\$ <u>35,509,906</u>

At June 30, 2014 and 2013, construction contract payables, including retentions, to be paid with board-designated funds were approximately \$147,000 and \$481,000, respectively. Construction contract commitments as of June 30, 2014, to be paid with board-designated funds, aggregated approximately \$7.7 million. There are no amounts included in the construction contract commitment amounts for 2014 for maintenance of compliance-order projects. At June 30, 2014, the Department's management estimates \$10.3 million will be needed in anticipation of future regulations for compliance.

Restricted cash and investments consisted of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Water system development fee	\$ 11,049,436	\$ 11,004,016
Customer deposits	605,551	1,540,267
Special assessment fund for storage	260,452	345,797
Source development fund assessments	153,603	207,048
Other	<u>5,246,232</u>	<u>4,428,075</u>
Total	\$ <u>17,315,274</u>	\$ <u>17,525,203</u>

At June 30, 2014 and 2013, construction voucher and contract payables, including retentions, to be paid with restricted assets were approximately \$3.6 million and \$1.5 million, respectively. Construction contract commitments as of June 30, 2014, to be paid with restricted assets, aggregated approximately \$18.2 million.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 3 - RESTRICTED NET POSITION

At June 30, 2014 and 2013, restricted net position consisted of the following:

	<u>2014</u>	<u>2013</u>
Water system development fee	\$ 11,049,436	\$ 11,004,016
Special assessment fund for storage	260,452	345,797
Source development fund assessments	153,603	207,048
Other restricted funds	<u>1,618,072</u>	<u>726,775</u>
Total	\$ <u>13,081,563</u>	\$ <u>12,283,636</u>

NOTE 4 - CAPITAL CONTRIBUTIONS

Capital contributions during the fiscal years ended June 30, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Dedication of infrastructure assets	\$ 1,783,222	\$ 3,645,575
Source development fund assessments	1,424,600	1,125,625
Other contributions	<u>--</u>	<u>780,628</u>
Total	\$ <u>3,207,822</u>	\$ <u>5,551,828</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity during the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Reductions/ Retirements	Balance June 30, 2014
Non-depreciable assets				
Land	\$ 6,924,798	\$ 6,205	\$ --	\$ 6,931,003
Construction in progress	<u>32,618,993</u>	<u>18,463,164</u>	<u>(1,347,919)</u>	<u>49,734,238</u>
	<u>39,543,791</u>	<u>18,469,369</u>	<u>(1,347,919)</u>	<u>56,665,241</u>
Depreciable assets				
Buildings and systems	128,549,659	598,093	--	129,147,752
Machinery and equipment	362,859,439	4,000,165	(314,499)	366,545,105
Other	<u>10,625,109</u>	<u>143,227</u>	<u>--</u>	<u>10,768,336</u>
	<u>502,034,207</u>	<u>4,741,485</u>	<u>(314,499)</u>	<u>506,461,193</u>
Accumulated depreciation				
Buildings and systems	56,721,065	3,824,708	--	60,545,773
Machinery and equipment	167,742,917	11,317,396	(128,459)	178,931,854
Other	<u>3,772,940</u>	<u>241,817</u>	<u>--</u>	<u>4,014,757</u>
	<u>228,236,922</u>	<u>15,383,921</u>	<u>(128,459)</u>	<u>243,492,384</u>
Total Capital Assets	\$ <u>313,341,076</u>	\$ <u>7,826,933</u>	\$ <u>(1,533,959)</u>	\$ <u>319,634,050</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 5 - CAPITAL ASSETS (Continued)

Capital assets activity during the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Reductions/ Retirements	Balance June 30, 2013
Non-depreciable assets				
Land	\$ 6,619,358	\$ 305,440	\$ --	\$ 6,924,798
Construction in progress	51,105,997	14,238,291	(32,725,295)	32,618,993
	<u>57,725,355</u>	<u>14,543,731</u>	<u>(32,725,295)</u>	<u>39,543,791</u>
Depreciable assets				
Buildings and systems	113,743,942	14,840,157	(34,440)	128,549,659
Machinery and equipment	340,878,722	22,338,787	(358,070)	362,859,439
Other	10,256,964	368,145	--	10,625,109
	<u>464,879,628</u>	<u>37,547,089</u>	<u>(392,510)</u>	<u>502,034,207</u>
Accumulated depreciation				
Buildings and systems	53,274,941	3,469,228	(23,104)	56,721,065
Machinery and equipment	157,193,749	10,906,616	(357,448)	167,742,917
Other	3,562,124	210,816	--	3,772,940
	<u>214,030,814</u>	<u>14,586,660</u>	<u>(380,552)</u>	<u>228,236,922</u>
Total Capital Assets	\$ <u>308,574,169</u>	\$ <u>37,504,160</u>	\$ <u>(32,737,253)</u>	\$ <u>313,341,076</u>

NOTE 6 - LONG-TERM LIABILITIES

A summary of long-term liabilities of the Department of Water Supply as of June 30, 2014, are as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Bonds payable	\$ 28,187,017	\$ --	\$ 2,585,202	\$ 25,601,815	\$ 2,408,969
Notes payable	5,262,325	12,931,963	522,615	17,671,673	950,412
Accrued vacation payable	2,006,355	815,440	750,240	2,071,555	774,621
Claims and judgments	472,868	486,511	297,947	661,432	661,432
Accrued post employment benefits	5,037,984	1,249,512	6,287,496	--	--
Total	\$ <u>40,966,549</u>	\$ <u>15,483,426</u>	\$ <u>10,443,500</u>	\$ <u>46,006,475</u>	\$ <u>4,795,434</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 6 - LONG-TERM LIABILITIES (Continued)

A summary of long-term liabilities of the Department of Water Supply as of June 30, 2013, are as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Current Portion
Bonds payable	\$ 14,443,444	\$ 15,382,914	\$ 1,639,341	\$ 28,187,017	\$ 2,318,564
Notes payable	14,608,782	1,836,812	11,183,269	5,262,325	288,824
Accrued vacation payable	2,032,127	716,963	742,735	2,006,355	733,316
Claims and judgments	523,446	303,872	354,450	472,868	472,868
Accrued post employment benefits	<u>3,788,472</u>	<u>1,249,512</u>	<u>--</u>	<u>5,037,984</u>	<u>--</u>
Total	<u>\$ 35,396,271</u>	<u>\$ 19,490,073</u>	<u>\$ 13,919,795</u>	<u>\$ 40,966,549</u>	<u>\$ 3,813,572</u>

NOTE 7 - BONDS PAYABLE

At June 30, 2014 and 2013, bonds payable consisted of the following:

	<u>2014</u>	<u>2013</u>
General Obligation Refunding Bonds, 2005 Series B, due in annual installments through 2018, interest payable semi-annually from 3.5% to 5.0%	\$ 3,960,000	\$ 4,840,000
General Obligation Refunding Bonds, 2008 Series A, due in annual installments through 2028, interest payable semi-annually from 3.5% to 5.0%	4,598,418	4,835,127
General Obligation Refunding Bonds, 2010 Series B, due in annual installments through 2021, interest payable semi-annually from 4.0% to 5.0%	2,697,044	3,023,789
General Obligation Refunding Bonds, 2012 Series B, due in annual installments through 2032, interest payable semi-annually from 2.0% to 5.0%	3,886,530	4,031,640
General Obligation Refunding Bonds, 2012 Series C, due in annual installments through 2023, interest payable semi-annually from 2.0% to 5.0%	<u>8,135,000</u>	<u>8,865,000</u>
	23,276,992	25,595,556
Less current portion	<u>(2,408,969)</u>	<u>(2,318,564)</u>
	20,868,023	23,276,992
Unamortized premium	<u>2,324,823</u>	<u>2,591,461</u>
Noncurrent portion	<u>\$ 23,192,846</u>	<u>\$ 25,868,453</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 7 - BONDS PAYABLE (Continued)

Future bond principal and interest payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,408,969	\$ 1,020,926	\$ 3,429,895
2016	2,512,890	916,385	3,429,275
2017	2,607,608	818,922	3,426,530
2018	2,734,873	695,221	3,430,094
2019	1,759,886	559,956	2,319,842
2020 - 2024	7,587,465	1,524,608	9,112,073
2025 - 2029	2,842,044	396,571	3,238,615
2030 - 2032	<u>823,257</u>	<u>49,874</u>	<u>873,131</u>
Total	\$ <u>23,276,992</u>	\$ <u>5,982,463</u>	\$ <u>29,259,455</u>

NOTE 8 - NOTES PAYABLE

At June 30, 2014 and 2013, notes payable consisted of the following:

	<u>2014</u>	<u>2013</u>
Notes payable to State of Hawaii, Department of Health		
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 0.37% and loan fee rate of 3.25%, maturing in 2029.	\$ 1,267,516	\$ 1,308,376
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 0.00% and loan fee rate of 3.25%, maturing in 2031.	587,946	622,531
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 0.35% and loan fee rate of 3.25%, maturing in 2032.	<u>3,046,997</u>	<u>2,537,581</u>
Balance forward	\$ <u>4,902,459</u>	\$ <u>4,468,488</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 8 - NOTES PAYABLE (Continued)

	<u>2014</u>	<u>2013</u>
Balance carried forward	\$ 4,902,459	\$ 4,468,488
Notes payable to Department of Health (Continued)		
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 0.00% and loan fee rate of 3.25%, maturing in 2032.	888,663	488,439
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 1.00% and loan fee rate of 1.00%, maturing in 2032.	233,642	233,553
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 0.50% and loan fee rate of 1.00%, maturing in 2033.	353,293	71,845
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 1.00% and loan fee rate of 0.50%, maturing in 2033.	826,682	--
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 0.00% and loan fee rate of 0.50%, maturing in 2033.	6,894,705	--
Note payable to State Revolving Loan Fund for a capital improvement project, payable in semi-annual installments of principal, interest, and loan fees at an interest rate of 0.50% and loan fee rate of 0.50%, maturing in 2033.	<u>3,572,229</u>	<u>--</u>
Balance forward	\$ <u>17,671,673</u>	\$ <u>5,262,325</u>

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 8 - NOTES PAYABLE (Continued)

	2014	2013
Balance carried forward	\$ 17,671,673	\$ 5,262,325
Less current maturities	<u>(950,412)</u>	<u>(288,824)</u>
	<u>\$ 16,721,261</u>	<u>\$ 4,973,501</u>

Annual maturities of the notes payables are as follows:

Fiscal Year Ending June 30,	Amount
2015	\$ 950,412
2016	952,751
2017	955,241
2018	957,594
2019	960,010
2020 - 2024	4,836,723
2025 - 2029	4,899,235
2030 - 2034	<u>3,159,707</u>
Total	<u>\$ 17,671,673</u>

NOTE 9 - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

All eligible employees of the Department are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing, multiple-employer defined benefit public employee retirement plan. The ERS is governed by a Board of Trustees. The ERS provides retirement, survivor, and disability benefits with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who were covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plans were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 9 - EMPLOYEE BENEFIT PLANS (Continued)

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation. For new members hired after June 30, 2012, the AFC is based on the five highest paid years of service excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5% the second year, 7.5% the third year, etc.). For new members hired after June 30, 2012, the post-retirement annuity increase was decreased to 1.5% per year.

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

Contributory Plan - Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving five years of credited service. The Department may also make contributions for these members. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

New employees in the contributory plan hired after June 30, 2012 are required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. These members may retire with full benefits at age 60 and 10 years of credited service, or may retire at age 55 with 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

Noncontributory Plan - Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Department is required to make all contributions for these members. Employees may retire with full benefits at age 62 and 10 years of credited service or age 55 and 30 years of credited service or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 9 - EMPLOYEE BENEFIT PLANS (Continued)

Hybrid Plan - Employees in the hybrid plan are required to contribute 6.0% of their salary and are fully vested for benefits upon receiving five years of credited service. The Department may also make contributions for these members. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

New employees in the hybrid plan hired after June 30, 2012 are required to contribute 8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service, or at age 60 with 30 years of credited service, or may retire at age 55 and 20 years service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. Employers contribute 15.75% for police officers and firefighters, and 13.75% for all other employees. These rates increased, as of July 1, 2008 to 19.70% for police officers and firefighters, and 15% for all other employees. The rates further increased, as of July 1, 2012 to 22.00% for police officers and firefighters, and 15.50% for all other employees. Each year thereafter, the rates will gradually increase to 25.00% for police officers and firefighters and to 17.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The pension contributions made by the Department for the years ended June 30, 2014, 2013 and 2012, were \$1,646,000, \$1,616,000, and \$1,625,000, respectively, which was equal to the annual required contributions. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Department.

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

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 9 - EMPLOYEE BENEFIT PLANS (Continued)

Post-Retirement Health Care and Life Insurance Benefits

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

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

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

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

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

Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the County as a whole and are not separately computed for the individual County departments and agencies such as the Department. The County allocates the ARC to the various departments and agencies based upon a systematic methodology. The Department's contributions paid to the County for the years ended June 30, 2014 and 2013, were \$1,265,059 and \$1,249,512, respectively, which equaled the Department's allocated ARC for postemployment healthcare and life insurance benefits.

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 9 - EMPLOYEE BENEFIT PLANS (Continued)

The Department's contributions of \$1,249,512, \$1,259,508, \$1,237,502, and \$1,291,462 for the years ended June 30, 2013, 2012, 2011, and 2010 respectively, were retained in the County's Postemployment Benefits Fund and not transferred to the EUTF. As a result, the Department recorded a due from other funds and an accrued postemployment benefits amounting to \$5,037,984 at June 30, 2013 in the accompanying statements of net position. In June 2014, the County transferred the amounts to the EUTF reducing the amount recorded in the due from other funds and the accrued postemployment benefits amounts to \$-0- at June 30, 2014 in the accompanying statements of net position.

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

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

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

Deferred Compensation Plan

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

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

**Department of Water Supply
County of Maui
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 10 - SICK LEAVE

Unaccrued sick leave at June 30, 2014 and 2013, aggregated approximately \$5.4 million and \$5.2 million, 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 11 - RISK MANAGEMENT

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

NOTE 12 - SUBSEQUENT EVENTS

Only July 9, 2014, the County issued approximately \$68.7 million of Series 2014 general obligation bonds. The proceeds from the bonds will be utilized to refund Series 2006A and Series 2004B general obligation debt. The Department's share of this issue approximated \$6.795 million.

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year ended June 30, 2014, the Department implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and changed its method of accounting for deferred bond costs. The financial statements as of and for the fiscal year ended June 30, 2013 have been restated to retroactively apply this change. Net position was adjusted by \$72,961 to eliminate the unamortized cost of issuance of long-term debt as of July 1, 2013. The effect of the change was to reduce interest expense by \$12,507 and increase bond issuance expense by \$106,532 for the fiscal year ended June 30, 2013.

SUPPLEMENTARY INFORMATION

**Department of Water Supply
County of Maui
SCHEDULE I - SUPPLEMENTAL SCHEDULE OF CAPITAL ASSETS
June 30, 2014**

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Description	Balance	Additions	Retirements	Balance	Accumulated	Additions	Retirements	Accumulated
	June 30, 2013	and Transfers		June 30, 2014	Depreciation			Depreciation
Land	\$ 6,924,798	\$ 6,205	\$ --	\$ 6,931,003	\$ --	\$ --	\$ --	\$ --
Source of Supply Structures	864,765	--	--	864,765	309,915	18,283	--	328,198
Collecting and Impounding Reservoirs	4,251,684	--	--	4,251,684	3,379,400	67,007	--	3,446,407
Wells & Springs	12,457,625	--	--	12,457,625	2,644,554	250,327	--	2,894,881
Power & Pumping Structures	6,597,314	30,317	--	6,627,631	951,580	187,798	--	1,139,378
Purification Buildings	33,837,049	567,776	--	34,404,825	24,451,257	1,863,565	--	26,314,822
Distribution Reservoirs	67,204,520	--	--	67,204,520	22,609,702	1,381,093	--	23,990,795
Office Building	1,672,930	--	--	1,672,930	1,036,539	32,702	--	1,069,241
Field Operation Building	1,072,693	--	--	1,072,693	771,661	19,912	--	791,573
Utility Plant - Unclassified	591,079	--	--	591,079	566,457	4,021	--	570,478
Electric Pumping Equipment	27,330,899	514,840	--	27,845,739	18,454,402	1,491,119	--	19,945,521
Other Power Pumping Equipment	1,987,510	93,064	--	2,080,574	1,050,198	223,631	--	1,273,829
Purification System - Chlorinators	2,878,880	82,589	--	2,961,469	1,311,604	252,707	--	1,564,311
Purification System - Filter Plants	50,465,280	(514,840)	(166,077)	49,784,363	35,548,975	1,816,168	--	37,365,143
Transmission & Distribution Mains	259,123,721	3,164,952	--	262,288,673	99,343,303	6,451,941	--	105,795,244
Service Laterals	3,312,422	197,916	--	3,510,338	1,855,815	122,546	--	1,978,361
Meters	8,667,574	34,522	--	8,702,096	3,412,682	494,714	--	3,907,396
Office Furniture & Equipment	46,468	7,687	--	54,155	18,984	2,685	--	21,669
Stores Equipment	98,567	--	--	98,567	91,433	4,928	--	96,361
Shop Equipment	66,373	--	--	66,373	57,612	1,431	--	59,043
Laboratory Equipment	534,799	--	(54,444)	480,355	259,173	22,841	(34,481)	247,533
Work Equipment	2,233,322	40,427	--	2,273,749	1,096,727	101,205	--	1,197,932
Communication Equipment	1,057,895	39,144	--	1,097,039	895,609	38,575	--	934,184
Meter Boxes	291,058	--	--	291,058	270,833	9,679	--	280,512
Hydrants	10,100,288	208,375	--	10,308,663	3,316,148	226,289	--	3,542,437
Standpipes	233,763	6,815	--	240,578	185,957	6,483	--	192,440
	<u>503,903,276</u>	<u>4,479,789</u>	<u>(220,521)</u>	<u>508,162,544</u>	<u>223,890,520</u>	<u>15,091,650</u>	<u>(34,481)</u>	<u>238,947,689</u>
Office Machines	707,476	36,991	(28,173)	716,294	624,432	30,503	(28,173)	626,762
Transportation Equipment	<u>4,348,253</u>	<u>230,910</u>	<u>(65,805)</u>	<u>4,513,358</u>	<u>3,721,970</u>	<u>261,768</u>	<u>(65,805)</u>	<u>3,917,933</u>
Total Capital Assets (1)	\$ <u>508,959,005</u>	\$ <u>4,747,690</u>	\$ <u>(314,499)</u>	\$ <u>513,392,196</u>	\$ <u>228,236,922</u>	\$ <u>15,383,921</u>	\$ <u>(128,459)</u>	\$ <u>243,492,384</u>
Revenue		\$ 634,629						
Contribution in aid of construction		2,997,441						
Capital Reserve Fund		691,099						
Water System Development Fee		(63,920)						
2013 Bond Fund		488,441						
		\$ <u>4,747,690</u>						

(1) Excludes construction in progress.

**Department of Water Supply
County of Maui
SCHEDULE II - SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS
June 30, 2014**

<u>County of Maui General Obligation Bonds</u>	<u>Fiscal Year</u>	<u>Coupon Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2014</u>	<u>Payable Within One Year</u>
G.O. Refunding Bonds, 2005 Series B (a)								
	2015	5.000	1/6/2005	3/1/2015	Noncallable	\$ 925,000	\$ 925,000	\$ 925,000
	2016	3.800	1/6/2005	3/1/2016	3/1/2015	970,000	970,000	--
	2017	5.000	1/6/2005	3/1/2017	3/1/2015	1,005,000	1,005,000	--
	2018	5.000	1/6/2005	3/1/2018	3/1/2015	<u>1,060,000</u>	<u>1,060,000</u>	--
Total 2005 Series B Issue						<u>3,960,000</u>	<u>3,960,000</u>	<u>925,000</u>
G.O. Refunding Bonds, 2008 Series A (b)								
	2015	3.500	7/1/2008	7/1/2014	Noncallable	245,063	245,063	245,063
	2016	3.500	7/1/2008	7/1/2015	Noncallable	254,114	254,114	--
	2017	3.500	7/1/2008	7/1/2016	Noncallable	263,165	263,165	--
	2018	3.500	7/1/2008	7/1/2017	Noncallable	272,911	272,911	--
	2019	3.500	7/1/2008	7/1/2018	7/1/2017	285,443	285,443	--
	2020	5.000	7/1/2008	7/1/2019	7/1/2017	299,367	299,367	--
	2021	5.000	7/1/2008	7/1/2020	7/1/2017	314,684	314,684	--
	2022	5.000	7/1/2008	7/1/2021	7/1/2017	330,696	330,696	--
	2023	5.000	7/1/2008	7/1/2022	7/1/2017	347,405	347,405	--
	2024	4.125	7/1/2008	7/1/2023	7/1/2017	363,418	363,418	--
	2025	4.200	7/1/2008	7/1/2024	7/1/2017	378,734	378,734	--
	2026	4.200	7/1/2008	7/1/2025	7/1/2017	394,747	394,747	--
	2027	5.000	7/1/2008	7/1/2026	7/1/2017	413,544	413,544	--
	2028	5.000	7/1/2008	7/1/2027	7/1/2017	<u>435,127</u>	<u>435,127</u>	--
Total 2008 Series A Issue						<u>4,598,418</u>	<u>4,598,418</u>	<u>245,063</u>

**Department of Water Supply
County of Maui
SCHEDULE II - SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS (Continued)
June 30, 2014**

County of Maui General Obligation Bonds	Fiscal Year	Coupon Interest Rate	Bond Dated	Maturing Serially From	Call Dates	Authorized and Issued	Outstanding June 30, 2014	Payable Within One Year
G.O. Refunding Bonds, 2010 Series B (c)								
	2015	4.000	12/1/2010	6/1/2015	Noncallable	\$ 339,926	\$ 339,926	\$ 339,926
	2016	4.000	12/1/2010	6/1/2016	Noncallable	353,508	353,508	--
	2017	4.000	12/1/2010	6/1/2017	Noncallable	367,888	367,888	--
	2018	5.000	12/1/2010	6/1/2018	Noncallable	382,667	382,667	--
	2019	4.000	12/1/2010	6/1/2019	Noncallable	401,441	401,441	--
	2020	4.000	12/1/2010	6/1/2020	Noncallable	417,419	417,419	--
	2021	4.000	12/1/2010	6/1/2021	6/1/2020	434,195	434,195	--
Total 2010 Series B Issue						<u>2,697,044</u>	<u>2,697,044</u>	<u>339,926</u>
G.O. Refunding Bonds, 2012 Series B (d)								
	2015	3.000	11/1/2012	6/1/2015	Noncallable	148,980	148,980	148,980
	2016	4.000	11/1/2012	6/1/2016	Noncallable	155,268	155,268	--
	2017	4.000	11/1/2012	6/1/2017	Noncallable	161,556	161,556	--
	2018	5.000	11/1/2012	6/1/2018	Noncallable	169,295	169,295	--
	2019	5.000	11/1/2012	6/1/2019	Noncallable	178,002	178,002	--
	2020	5.000	11/1/2012	6/1/2020	Noncallable	186,708	186,708	--
	2021	5.000	11/1/2012	6/1/2021	Noncallable	196,382	196,382	--
	2022	5.000	11/1/2012	6/1/2022	Noncallable	206,056	206,056	--
	2023	4.000	11/1/2012	6/1/2023	Noncallable	216,214	216,214	--
	2024	2.125	11/1/2012	6/1/2024	6/1/2023	224,921	224,921	--
	2025	3.000	11/1/2012	6/1/2025	6/1/2023	229,758	229,758	--
	2026	3.000	11/1/2012	6/1/2026	6/1/2023	236,529	236,529	--
	2027	3.000	11/1/2012	6/1/2027	6/1/2023	243,785	243,785	--
	2028	3.000	11/1/2012	6/1/2028	6/1/2023	251,040	251,040	--
	2029	3.000	11/1/2012	6/1/2029	6/1/2023	258,780	258,780	--
	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	282,479	282,479	--
Total 2012 Series B Issue						<u>3,886,530</u>	<u>3,886,530</u>	<u>148,980</u>

**Department of Water Supply
County of Maui
SCHEDULE II - SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS (Continued)
June 30, 2014**

<u>County of Maui General Obligation Bonds</u>	<u>Fiscal Year</u>	<u>Coupon Interest Rate</u>	<u>Bond Dated</u>	<u>Maturing Serially From</u>	<u>Call Dates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2014</u>	<u>Payable Within One Year</u>
G.O. Refunding Bonds, 2012 Series C (e)								
	2015	3.00%	11/1/2012	6/1/2015	Noncallable	\$ 750,000	\$ 750,000	\$ 750,000
	2016	4.00%	11/1/2012	6/1/2016	Noncallable	780,000	780,000	--
	2017	4.00%	11/1/2012	6/1/2017	Noncallable	810,000	810,000	--
	2018	5.00%	11/1/2012	6/1/2018	Noncallable	850,000	850,000	--
	2019	5.00%	11/1/2012	6/1/2019	Noncallable	895,000	895,000	--
	2020	5.00%	11/1/2012	6/1/2020	Noncallable	940,000	940,000	--
	2021	5.00%	11/1/2012	6/1/2021	Noncallable	985,000	985,000	--
	2022	5.00%	11/1/2012	6/1/2022	Noncallable	1,035,000	1,035,000	--
	2023	4.00%	11/1/2012	6/1/2023	Noncallable	<u>1,090,000</u>	<u>1,090,000</u>	--
Total 2012 Series C Issue						<u>8,135,000</u>	<u>8,135,000</u>	<u>750,000</u>
Total General Obligation Bonds						\$ <u>23,276,992</u>	\$ <u>23,276,992</u>	\$ <u>2,408,969</u>

**Department of Water Supply
County of Maui
SCHEDULE II - SUPPLEMENTAL SCHEDULE OF LONG-TERM DEBT -
GENERAL OBLIGATION BONDS (Continued)
June 30, 2014**

NOTES:

- (a) The General Obligation Refunding Bonds, 2005, Series B, maturing on or before March 1, 2015 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 March 1, 2016, prior to their stated maturity, on or after March 1, 2015, 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 Bonds, 2008, Series A, maturing on or before July 1, 2017 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on July 1, 2018, prior to their stated maturity, on or after July 1, 2017, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.
- (c) 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.
- (d) The General Obligation Refunding Bonds, 2012, Series B, maturing on or before June 1, 2023 are issued without the right or option of the County of Maui to redeem the same prior to their respective maturity dates. The County of Maui reserves the right and option to redeem the Bonds maturing on June 1, 2024, prior to their stated maturity, on or after June 1, 2023, in whole or in part at any time, in order of maturity selected by the County of Maui and by lot within a maturity, at 100% of the principal amount.
- (e) 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.