

COUNTY OF HAWAI'I
DEPARTMENT OF WATER SUPPLY
(A component unit of the County of Hawai'i, State of Hawai'i)

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS

Fiscal Year Ended June 30, 2021



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COUNTY OF HAWAI‘I
DEPARTMENT OF WATER SUPPLY
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COUNTY OF HAWAI‘I
DEPARTMENT OF WATER SUPPLY
(A component unit of the County of Hawai‘i, State of Hawai‘i)

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INDEPENDENT AUDITOR'S REPORT

To the Water Board
County of Hawai'i, Department of Water Supply

Report on the Financial Statements

We have audited the accompanying financial statements of the County of Hawai'i, Department of Water Supply (Department), a component unit of the County of Hawai'i, State of Hawai'i, as of and for the fiscal year ended June 30, 2021, 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2021, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adjustments to Prior Period Financial Statements

As discussed in Note J to the financial statements, certain errors were discovered in relation to classification of capital asset balances as of June 30, 2020. Accordingly, the accompanying financial statements have been restated to correct these errors. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 11 and the schedules of proportionate share of the net pension liability, contributions (pension), changes in the net OPEB liability and related ratios, and contributions (OPEB) on pages 45 through 51 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2022 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
January 21, 2022

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2021

The Department of Water Supply, County of Hawai'i (Department) operates as a semiautonomous agency charged with the responsibility of operating and maintaining the County of Hawai'i's public water systems. The Department is a utility enterprise and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Readers are encouraged to consider the information presented here in conjunction with the financial statements taken as a whole.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the Department's finances in a manner similar to a private sector business.

The statements of net position present information on all of the Department's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual amount reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating. Net position increases when revenues exceed expenses. Increases in assets and deferred outflows of resources, without a corresponding increase in liabilities and deferred inflows of resources, result in increased net position, which indicate an improved financial position. In the case of the Department, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$212.1 million, at the close of the most recent fiscal year. This represents a decrease of \$3.9 million, or 1.84% less than the previous year. At June 30, 2021, \$235.9 million of the Department's net position was invested in capital assets (net of related debt), and (\$23.8) million was unrestricted.

The statements of revenues, expenses, and changes in net position present information showing how the Department's net position changed during the fiscal year. All components of the changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statements for some items that will result in cash flows in future fiscal periods.

The statements of cash flows present changes in cash and cash equivalents (short-term investments with original maturities of three months or less from the date of acquisition), resulting from operating, investing, capital and related financing activities, and non-capital financing activities.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Department's participation in the Employees' Retirement System of the State of Hawai'i (ERS) and the Employer-Union Health Benefits Trust Fund of the State of Hawai'i (EUTF).

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Condensed Financial Information

The following are summaries from the Department's financial statements as of and for the fiscal years ended June 31, 2021 and 2020.

STATEMENTS OF NET POSITION		
	2021	2020 (as restated)
Assets		
Capital assets, net	\$ 302,506,735	\$ 300,269,903
Other assets	<u>48,572,154</u>	<u>52,659,064</u>
Total assets	<u>351,078,889</u>	<u>352,928,967</u>
Deferred outflows of resources		
Deferred outflows of resources	<u>10,072,803</u>	<u>10,093,069</u>
Total deferred outflows of resources	<u>10,072,803</u>	<u>10,093,069</u>
Total assets and deferred outflows of resources	\$ <u><u>361,151,692</u></u>	\$ <u><u>363,022,036</u></u>
Liabilities		
Long-term debt	\$ 67,451,426	\$ 66,433,693
Other liabilities	<u>76,550,883</u>	<u>76,578,688</u>
Total liabilities	<u>144,002,309</u>	<u>143,012,381</u>
Deferred inflows of resources		
Deferred inflows of resources	<u>5,029,788</u>	<u>3,911,126</u>
Total deferred inflows of resources	<u>5,029,788</u>	<u>3,911,126</u>
Net position		
Net investment in capital assets	232,086,655	230,896,241
Unrestricted	<u>(19,967,060)</u>	<u>(14,797,712)</u>
Total net position	<u>212,119,595</u>	<u>216,098,529</u>
Total liabilities, deferred inflows of resources and net position	\$ <u><u>361,151,692</u></u>	\$ <u><u>363,022,036</u></u>

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Condensed Financial Information (Continued)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2021	2020 (as restated)
Operating revenues - water sales	\$ 50,502,359	\$ 49,052,933
Operating expenses	<u>58,171,860</u>	<u>58,942,515</u>
Operating loss	(7,669,501)	(9,889,582)
Nonoperating revenues	1,271,384	1,475,971
Nonoperating expenses	<u>(1,927,397)</u>	<u>(1,877,186)</u>
Loss before contributions	(8,325,514)	(10,290,797)
Contributions in aid of construction	<u>4,346,580</u>	<u>3,202,379</u>
Change in net position	(3,978,934)	(7,088,418)
Net position at beginning of fiscal year	216,098,529	223,929,317
Prior period adjustment	<u>--</u>	<u>(742,370)</u>
Net position at beginning of fiscal year, as restated	<u>216,098,529</u>	<u>223,186,947</u>
Net position end of fiscal year	\$ <u>212,119,595</u>	\$ <u>216,098,529</u>

Financial Analysis

Capital assets, net increased by \$2.2 million, or 0.74%, during the fiscal year ended June 30, 2021 (FY2021), due primarily to an increase in accumulated depreciation of \$14.9 million, offset by increases in utility plant in service of \$9.5 million and construction work in progress of \$6.3 million.

Other assets decreased by \$4.1 million, or 7.76%, in FY2021, due primarily to decreases in investments of \$2.0 million.

Deferred outflows of resources decreased by \$0.02 million, or 0.20%, in FY2021, due primarily to a decrease in deferred outflows of resources for OPEB of \$0.07 million offset by an increase in deferred outflows of resources for pensions of \$0.05 million.

Long-term debt increased by \$1.0 million, or 1.53%, in FY2021, due primarily to bond and loan repayments of \$5.8 million, offset by loan proceeds of \$7.2 million, and refunding bond of \$4.4 million with new issue of \$3.7 million.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

Financial Analysis (Continued)

Other liabilities decreased by \$0.03 million, or 0.04% in FY2021, due primarily to collective increases in accrued compensation, customers' deposits, accrued vacation, and net pension liability totaling \$3.73 million offset by collective decreases in accounts and construction contracts payable, accrued interest payable, accrued workers' compensation, unearned revenue (non current) and net OPEB liability totaling \$3.75 million.

Deferred inflows of resources increased by \$1.1 million, or 28.60%, in FY2021, due primarily to an increase in deferred inflows of resources related to OPEB of \$2.0 million offset by a decrease in deferred inflows of resources related to pensions of \$1.0 million.

Net investment in capital assets increased by \$1.2 million, or 0.52%, in FY2021, due primarily to an increase in net capital assets of \$2.2 million, offset by an increase in long-term debt of \$1.2 million.

Total net position decreased \$3.9 million, or 1.84%, in FY2021, due primarily to the results of operations of (\$3.9 million).

In October 2020, the Water Board approved a 13% rate increase for water consumption and standby charges that became effective January 1, 2021. Total operating revenues increased by \$1.4 million, or 2.95% in FY2021, due primarily to an increase in water consumption charges of \$1.5 million and standby charges of \$1.0 million offset by a decrease in power charges of \$1.1 million.

Operating expenses decreased by \$0.7 million, or 0.91%, in FY2021, due primarily to a decrease in power and pumping of \$1.4 million offset by increases in general and administrative and transmission and distribution expenses of \$1.0 million.

Nonoperating expenses increased by \$0.05 million, or 2.67%, in FY2021, due primarily to a decrease in interest on long-term debt of \$0.28 million offset by an increase in losses on disposal of property of \$0.30 million.

Contributions in aid of construction (CIAC) increased by \$1.14 million, or 35.73%, in FY2021, due primarily to an increase in current year dedications of \$0.16 million, the addition to CIAC of \$1.60 million for Uplands Subd Ph II offset by decreases in external Federal funding of \$0.11 million and CIAC-Facilities Charge of \$0.31 million.

Capital Assets and Debt Administration

As of June 30, 2021, the Department had \$302.5 million invested in capital assets, and \$67.4 million of long-term debt outstanding.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2021

During 2021, major capital asset additions included:

- \$2.3 million for the Kaieie Mauka Facility Improvements.
- \$0.1 million for the Kaloko Mauka #1 Booster A&B repair.
- \$0.9 million for the Hualalai Deepwell Repair.
- \$0.8 million for the Keauohana Deepwell B Repair.
- \$0.2 million for the Parker #1 Deepwell Repair.
- \$0.2 million for the Honokaa Boosters A&B.
- \$0.3 million for the Kulaimano Well Repair.
- \$0.4 million for the Olaa Deepwell Repair.
- \$0.6 million for the Holualoa Deepwell Repair.
- \$0.4 million for the Lalamilo Deepwell Repair.
- \$1.0 million for the Keahuolu Deepwell Repair.

More detailed information about the Department's capital assets is provided in Note D to the financial statements.

At June 30, 2021, the Department had outstanding \$18.8 million in County of Hawai'i general obligation bonds for public improvements, and \$47.0 million in State of Hawai'i revolving fund loans.

As of June 30, 2021, the Department, through the County of Hawai'i, maintained an "AA" rating from Standard & Poor's, an "Aa2" rating from Moody's and an "AA+" rating from Fitch for general obligation debt.

Currently Known Facts, Decisions, or Conditions

Effective January 1, 2021, water rates increased 13% from the fiscal year ended June 30, 2020.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
STATEMENT OF NET POSITION
June 30, 2021

ASSETS

Current assets

Cash and cash equivalents	\$ 17,119,629
Investments	18,000,000
Interest receivable	437,619
Trade receivables, less allowance for doubtful accounts of \$1,700,000	8,128,905
Intergovernmental receivables	263,386
Other receivables	245,871
Inventories of materials and supplies	1,438,500
Prepaid expenses and other	<u>50,019</u>
Total current assets	<u>45,683,929</u>

Restricted cash	<u>888,225</u>
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Investments	<u>2,000,000</u>
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Capital assets

Utility plant in service	538,770,419
Less accumulated depreciation	<u>(292,046,560)</u>
	246,723,859
Land and rights	5,267,919
Preliminary survey and investigation charges	5,515,581
Construction work in progress	<u>44,999,376</u>
Net capital assets	<u>302,506,735</u>

Total assets	<u>351,078,889</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	7,488,980
Deferred outflows of resources related to OPEB	<u>2,583,823</u>
Total deferred outflows of resources	<u>10,072,803</u>
Total assets and deferred outflows of resources	<u>\$ 361,151,692</u>

The accompanying notes are an integral part of these financial statements.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
STATEMENT OF NET POSITION (Continued)
June 30, 2021

LIABILITIES

Current liabilities

Accounts and construction contracts payable, including retainages	\$ 5,900,022
Long-term debt, current portion	6,214,530
Accrued compensation	1,961,911
Accrued interest payable	475,544
Accrued workers' compensation, current portion	97,888
Accrued vacation, current portion	629,515
Customers' deposits, current portion	<u>284,487</u>

Total current liabilities	15,563,897
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Accrued workers' compensation, noncurrent portion	282,112
Accrued vacation, noncurrent portion	1,400,153
Customers' deposits, noncurrent portion	15,835,180
Net pension liability	35,290,257
Net OPEB liability	14,393,814
Long-term debt, noncurrent portion	<u>61,236,896</u>

Total liabilities	<u>144,002,309</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	1,774,106
Deferred inflows of resources related to OPEB	3,073,292
Unamortized gain on refunding of debt	<u>182,390</u>

Total deferred inflows of resources	<u>5,029,788</u>
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NET POSITION

Net investment in capital assets	232,086,655
Unrestricted	<u>(19,967,060)</u>

Total net position	<u>212,119,595</u>
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Total liabilities, deferred inflows of resources and net position	\$ <u><u>361,151,692</u></u>
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The accompanying notes are an integral part of these financial statements.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Year ended June 30, 2021

OPERATING REVENUES

Water sales	\$	<u>50,502,359</u>
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OPERATING EXPENSES

Power and pumping		18,416,244
Depreciation		14,934,054
General and administrative		12,007,335
Transmission and distribution		7,470,735
Purification		2,296,296
Maintenance and repairs		1,682,148
Customers' accounting and collecting		<u>1,365,048</u>
Total operating expenses		<u>58,171,860</u>
Operating loss		<u>(7,669,501)</u>

NONOPERATING REVENUES

Interest income		381,448
Other		<u>889,936</u>
Total nonoperating revenues		<u>1,271,384</u>

NONOPERATING EXPENSES

Interest expense on long-term debt		(1,280,834)
Loss on disposal of capital assets		(412,328)
Other		<u>(234,235)</u>
Total nonoperating expenses		<u>(1,927,397)</u>
Loss before contributions		(8,325,514)

CONTRIBUTIONS IN AID OF CONSTRUCTION

		<u>4,346,580</u>
Change in net position		(3,978,934)

NET POSITION

Beginning of fiscal year, as previously reported		217,335,813
Prior period adjustment		<u>(1,237,284)</u>
Beginning of fiscal year, as restated		<u>216,098,529</u>
Net position at end of fiscal year	\$	<u><u>212,119,595</u></u>

The accompanying notes are an integral part of these financial statements.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
STATEMENT OF CASH FLOWS
Fiscal Year ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 49,503,797
Payments to suppliers for goods and services	(22,763,519)
Payments to employees for services	<u>(17,758,696)</u>
Net cash provided by operating activities	<u>8,981,582</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on long-term debt	(5,833,067)
Debt proceeds	7,206,603
Interest paid on long-term debt	(1,610,328)
Acquisition and construction of capital assets	(15,224,953)
Cash received from contributions in aid of construction and other	<u>1,316,044</u>
Net cash used in capital and related financing activities	<u>(14,145,701)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(13,000,000)
Proceeds from sale and maturities of investments	15,000,000
Interest received	<u>620,633</u>
Net cash provided by investing activities	<u>2,620,633</u>

Net decrease in cash and cash equivalents	(2,543,486)
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CASH AND CASH EQUIVALENTS - BEGINNING OF FISCAL YEAR	<u>20,551,340</u>
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CASH AND CASH EQUIVALENTS - END OF FISCAL YEAR	<u>\$ 18,007,854</u>
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RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION

Unrestricted	\$ 17,119,629
Restricted	<u>888,225</u>
	<u>\$ 18,007,854</u>

The accompanying notes are an integral part of these financial statements.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
STATEMENT OF CASH FLOWS (Continued)
Fiscal Year ended June 30, 2021

**RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating loss	\$ (7,669,501)
Depreciation	14,934,054
Provision for doubtful accounts	202,367
Change in assets, deferred outflows of resources, liabilities and deferred inflows of resources	
Trade and other receivables	(1,224,963)
Inventories of materials and supplies	98,855
Prepaid expenses and other	(4,903)
Deferred outflows of resources related to pensions	(47,272)
Deferred outflows of resources related to OPEB	67,538
Accounts and construction contracts payable, including retainages	(133,533)
Customers' deposits	24,034
Other accrued liabilities	160,709
Net pension liability	3,261,009
Net OPEB liability	(1,685,933)
Deferred inflows of resources related to pensions	(980,539)
Deferred inflows of resources related to OPEB	<u>1,979,660</u>
Net cash provided by operating activities	\$ <u>8,981,582</u>

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

Contributions in aid of construction	\$ 3,263,419
Amortization of unamortized gain on refunding of debt	\$ 17,004
Amortization of bond premium	\$ 242,352

Public improvement bonds were issued to refund debt issued in 2010. The \$4,448,051 proceeds were used for the current refunding of \$4,403,750 of outstanding public improvement bonds.

The accompanying notes are an integral part of these financial statements.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE A - NATURE OF ACTIVITIES

The Department of Water Supply, County of Hawai'i (Department) is administered by the Water Board, which consists of nine members who serve staggered terms of five years in length. Board members are appointed by the Mayor of the County of Hawai'i, State of Hawai'i (County) and are confirmed by the County Council, as required by the County Charter.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) **Financial Statement Presentation** - The Department is a component unit of the County (primary government). The accompanying financial statements present only the financial position and activities of the Department and do not purport to, and do not present the financial position of the County, the changes in its financial position, or, where applicable, its cash flows.
- (2) **Measurement Focus and Basis of Accounting** - The Department's financial statements are prepared 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.
- (3) **Cash and Cash Equivalents** - For purposes of the statement of cash flows, the Department considers all highly liquid investments with a maturity of three months or less or money market funds with a weighted average maturity of three months or less when purchased to be cash equivalents.
- (4) **Investments** - Investments in time certificates of deposits are carried at cost, which approximates fair value.
- (5) **Trade Receivables** - Trade receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Department's best estimate of the amount of probable credit losses in the Department's existing trade receivables. The Department determines the allowance based on historical write-off experience. The Department reviews its allowance for doubtful accounts monthly. Past-due balances over 90 days and over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.
- (6) **Inventories of Materials and Supplies** - Materials and supplies are stated at cost on an average cost basis.
- (7) **Restricted Assets** - Unspent bond proceeds that are restricted for purchases of water system improvements are recorded as restricted assets.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (8) **Capital Assets** - Capital assets in service as of January 1, 1950, date of inception of the Department, were recorded at the cost of the assets acquired by the County for its water system from January 1, 1924 to December 31, 1949, less accumulated depreciation to December 31, 1949, as determined by the Department. Assets purchased prior to 1924 and property acquired by gift or grant prior to 1950 are not included in capital assets. Additions to capital assets since January 1, 1950 are stated at cost and include contributions by governmental agencies, private subdividers, and customers at their cost or estimated cost. The capitalization threshold of assets is \$400 with estimated useful lives greater than one year. Construction costs include amounts for contract work, engineering supervision, and other direct costs and overhead costs.

Preliminary survey and investigation charges represent expenditures incurred to determine the feasibility of potential water system sites for future development.

Maintenance and repairs and minor replacements are charged to operations. Major replacements, renewals, and betterments are capitalized to capital asset accounts.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Distribution mains and accessories	40 years
Structures and improvements	40 to 50 years
Electric and hydraulic pumping equipment	10 years
Services	25 years
Transmission mains and accessories, hydrants and purification system	40 years
Meters	10 years
Transportation, communication, tools and office equipment and furniture	5 years
Other equipment	5 to 10 years
Other fire protection plant	25 years

Annual depreciation rates are applied to costs of the various classes of depreciable assets on the group basis or, as to transportation equipment, to the cost of individual units of property.

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

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (9) ***Compensated Absences*** - Employees earn vacation credits at the rate of one and three-quarter working days for each month of service. Up to 90 days of vacation leave credits can be accumulated per employee. In addition, employees who work overtime can elect to take compensatory time off instead of overtime pay. The time off is earned at the rate of one and a half hours for each hour of overtime worked. Both compensatory time off and vacation credits are converted to pay upon termination of employment.

Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accumulated sick leave at June 30, 2021 amounted to approximately \$6,300,000.

- (10) ***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 Hawai'i (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 member contributions are recognized in the period in which the contributions are legally due and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.
- (11) ***Postemployment Benefits Other Than Pensions (OPEB)*** - For the 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.
- (12) ***Net Position*** - Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is classified in the following components: net investment in capital assets and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt related to the acquisition or construction of those assets, less unspent bond proceeds. Unrestricted net position consists of all other net position not categorized as net investment in capital assets.

When both restricted and unrestricted resources are available for use, generally, it is management's policy to use restricted resources first, then unrestricted resources, as they are needed.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (13) ***Operating Revenues and Expenses*** - Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the Department's principal ongoing operations. The principal operating revenues of the Department are fees charged to customers for providing water services. Operating expenses include the costs associated with providing water services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.
- (14) ***Contributions in Aid of Construction*** - Contributions in aid of construction represent cash or capital assets received by the Department to aid in the construction of infrastructure assets. It also includes the forgiveness of principal due on state revolving fund loans that were used to finance the costs of infrastructure needed to maintain the water system. Contributions in aid of construction are recognized when they are accepted by the Water Board and when all applicable eligibility requirements have been met.
- (15) ***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) 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.
- (16) ***Use of Estimates*** - The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make a number of 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 for trade receivables, valuation of noncash contributions in aid of construction, accrued workers' compensation, pensions and postretirement healthcare and life insurance benefits. Actual results could differ from those estimates.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (17) ***New Accounting Pronouncements*** - The Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Management has not yet determined the effect this Statement will have on the Department's financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. 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. The requirements in paragraphs 6 and 7 of this Statement are effective for fiscal years beginning after June 15, 2021, while the requirements in paragraphs 8, 9, and 12 of this Statement are effective for reporting periods beginning after June 15, 2021. Management has not yet determined the effect this Statement will have on the Department's financial statements.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 C - DEPOSITS AND INVESTMENTS

At June 30, 2021, the carrying amount of deposits (cash, time certificates of deposit, and money market funds) was \$38,007,854, with a corresponding bank balance of \$38,971,017. These amounts were fully insured or collateralized with securities held by the County's agent in the County's name.

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NOTE C - DEPOSITS AND INVESTMENTS (Continued)

The Hawai'i Revised Statutes (HRS) authorizes the County Director of Finance to invest Department moneys that are in excess of the amounts necessary for meeting immediate requirements. The primary objective of the County's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the Department. The third objective is to return an acceptable yield. In accordance with the HRS, the County's investment policy permits investments in obligations of or guaranteed by the U.S. government, obligations of the State of Hawai'i, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions. Investments in time certificates of deposits totaled \$20,000,000 at June 30, 2021.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Department will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Department's policy requires deposits to be maintained at financial institutions that are members of the Federal Deposit Insurance Corporation and for deposits in excess of insured amounts to be collateralized with securities in accordance with the HRS.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Department will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Department's policy provides a list of authorized counterparties as well as minimum requirements that counterparties must demonstrate in order to be utilized by the Department.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Department manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Department monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Credit Risk and Concentration of Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Department's policy limits investment options to those authorized in the HRS and requires the diversification of assets as to issuer.

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NOTE D - CAPITAL ASSETS

The following summarizes the Department's capital assets at June 30, 2021:

	<u>Amount</u>
Utility plant in service	
Structures and improvements	\$ 201,177,444
Distribution mains and accessories	146,414,763
Electric and hydraulic pumping equipment	73,403,352
Transmission mains and accessories	36,614,323
Services	32,792,603
Purification system	13,384,414
Meters	11,402,561
Hydrants	9,760,517
Transportation equipment	4,583,687
Communication equipment	3,182,341
Office equipment and furniture	2,752,811
Tools and work equipment	1,640,771
Other equipment	1,641,245
Other fire protection plant	<u>19,587</u>
Total utility plant in service	538,770,419
Less accumulated depreciation	<u>(292,046,560)</u>
	246,723,859
Land and rights	5,267,919
Preliminary survey and investigation charges	5,515,581
Construction work in progress	<u>44,999,376</u>
Net capital assets	<u>\$ 302,506,735</u>

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2021:

	Balance July 1, 2020 (restated)	Additions	Retirements/ Transfers	Balance June 30, 2021
Utility plant in service	\$ 529,212,470	\$ 10,636,869	\$ (1,078,920)	\$ 538,770,419
Less accumulated depreciation	<u>(277,778,573)</u>	<u>(14,934,054)</u>	<u>666,067</u>	<u>(292,046,560)</u>
	251,433,897	(4,297,185)	(412,853)	246,723,859
Land and rights	5,261,319	6,600	--	5,267,919
Preliminary survey and investigation charges	4,926,822	822,977	(234,218)	5,515,581
Construction work in progress	<u>38,647,865</u>	<u>16,639,120</u>	<u>(10,287,609)</u>	<u>44,999,376</u>
	<u>\$ 300,269,903</u>	<u>\$ 13,171,512</u>	<u>\$ (10,934,680)</u>	<u>\$ 302,506,735</u>

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NOTE E - LONG-TERM OBLIGATIONS

At June 30, 2021, long-term debt consisted of the following:

	<u>Amount</u>
Public improvement refunding bonds (\$13,497,500 issued), 2016 Series B, payable to the County, interest at 3% to 5%, due in semiannual installments through 2026	\$ 8,830,000
Public improvement refunding bonds (\$6,353,750 issued), 2016 Series E, payable to the County, interest at 2% to 5%, due in semiannual installments through 2029	5,838,750
Public improvement refunding bonds (\$3,751,250 issued), 2020 Series C & D, payable to the County, interest at 5%, due in semiannual installments through 2029	3,405,000
Public improvement refunding bonds (\$5,752,612 issued), 2007 Series C, payable to the County, interest at 4% to 5%, due in semiannual installments through 2021	639,952
Public improvement bonds (\$147,000 issued), 2008 Series A, payable to the County, interest at 4.125%, due in semiannual installments through 2043	117,541
State Revolving Fund loans (\$73,624,812 loaned) payable to the State of Hawaii, interest up to 1.37%, due in semiannual installments through 2040	<u>46,997,951</u>
Total long-term debt	65,829,194
Add: Unamortized premium	<u>1,622,232</u>
	67,451,426
Less: Current portion	<u>(6,214,530)</u>
Noncurrent portion	\$ <u>61,236,896</u>

The public improvement bonds consist of long-term obligations to the County that reflect the Department's proportionate share of general obligation bonds that were issued by the County, in part, for the purpose of improving the public water system. The County's general obligation bonds are an absolute and unconditional general obligation of the County for which its full faith and credit are pledged. The principal and interest payments on the bonds are a first charge on the general fund of the County.

The Department's State Revolving Fund Loans are direct borrowings of the Department for which it pledges either its full faith and credit or gross revenues of the Department.

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NOTE E - LONG-TERM OBLIGATIONS (Continued)

The following is a summary of changes in long-term debt during the fiscal year ended June 30, 2021:

	Balance July 1, 2020	Additions	Decreases	Balance June 30, 2021	Due Within One Year
State Revolving Fund Loans	\$ 42,909,525	\$ 7,206,603	\$ (3,118,177)	\$ 46,997,951	\$ 3,417,443
Public Improvement Bonds	22,198,633	--	(3,367,390)	18,831,243	2,797,087
Total	\$ 65,108,158	\$ 7,206,603	\$ (6,485,567)	\$ 65,829,194	\$ 6,214,530

At June 30, 2021, future principal and interest payments for long-term debt are scheduled as follows:

Year Ending June 30,	State Revolving Fund Loans		Public Improvement Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 3,417,443	\$ 726,119	\$ 2,797,087	\$ 751,032	\$ 6,214,530	\$ 1,477,151
2023	2,933,881	659,020	2,267,275	624,456	5,201,156	1,283,476
2024	2,968,161	607,556	2,384,921	508,185	5,353,082	1,115,741
2025	3,002,936	555,540	2,496,322	393,728	5,499,258	949,268
2026	3,038,178	503,001	2,603,980	288,195	5,642,158	791,196
2027 - 2031	14,615,768	1,769,103	6,205,000	370,421	20,820,768	2,139,524
2032 - 2036	12,280,555	752,069	27,539	13,631	12,308,094	765,700
2037 - 2041	4,741,029	119,132	33,708	7,462	4,774,737	126,594
2042 - 2046	--	--	15,411	958	15,411	958
	\$ 46,997,951	\$ 5,691,540	\$ 18,831,243	\$ 2,958,068	\$ 65,829,194	\$ 8,649,608

In November 2020, the County issued \$15,005,000 in refunding bonds as the 2020 Series C&D general obligation bond issue. The refunding bonds have a true interest cost of 0.86% and were issued to refund \$17,615,000 of the total callable bonds outstanding of the 2010 Series B general obligation bond issue. The bonds refunded bore interest at a rate of 5.0%. The Department has a 25% proportionate share of the 2010 Series B and 2020 Series C&D general obligation bond issues. The par amount of \$3,751,250 plus a premium of \$719,895 minus \$23,094 in underwriting fees, insurance, and other issuance costs resulted in the Department's share of net proceeds of \$4,448,051.

The Department's total debt service requirements decreased by \$585,931 as a result of the refunding, and the net economic gain (difference between the present values on the old and new debt) after taking into account all allocable costs of issuance of the bonds was \$511,467.

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NOTE E - LONG-TERM OBLIGATIONS (Continued)

In prior years, the County defeased certain general obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the assets of the irrevocable trust and the liability of the defeased bonds are not included for the Department's proportionate share on the Department's financial statements. As of June 30, 2021, the Department's proportionate share of the outstanding balance of the unpaid defeased bonds amounted to \$15,822,500.

NOTE F - OTHER LONG-TERM OBLIGATIONS

The following is a summary of other long-term obligations transactions for the fiscal year ended June 30, 2021:

	Balance July 1, 2020	Additions	Deductions and Payments	Balance June 30, 2021	Due Within One Year
Accrued workers' compensation	\$ 660,000	\$ --	\$ (280,000)	\$ 380,000	\$ 97,888
Accrued vacation	1,809,892	897,318	(677,542)	2,029,668	629,515
Customers' deposits	16,095,633	896,631	(872,597)	16,119,667	284,487
Total	\$ 18,565,525	\$ 1,793,949	\$ (1,830,139)	\$ 18,529,335	\$ 1,011,890

NOTE G - EMPLOYEE BENEFITS

Pension Plan

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

Benefits Provided - The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) 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

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NOTE G - EMPLOYEE BENEFITS (Continued)

the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

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

Noncontributory Class

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

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

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 the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

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NOTE G - EMPLOYEE BENEFITS (Continued)

Contributory Class for Employees Hired prior to July 1, 2012

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

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

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 children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

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.

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NOTE G - EMPLOYEE BENEFITS (Continued)

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 of service is 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.

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.

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NOTE G - EMPLOYEE BENEFITS (Continued)

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

Hybrid Class for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

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 \$2,579,631 for the fiscal year ended June 30, 2021.

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

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G - EMPLOYEE BENEFITS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2021, the Department reported a liability of \$35,290,257 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the net pension liability was based on a proportion of the Department's contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2020, the Department's proportion was 0.23%, a decrease of 0.01% from its proportion measured as of June 30, 2019.

The actuarial assumptions used in the June 30, 2020 actuarial valuation are the same as those used in the prior valuation. There were no changes between the measurement date, June 30, 2020, and the reporting date, June 30, 2021 that are expected to have a significant effect on the proportionate share of the net pension liability.

For the fiscal years ended June 30, 2021, the Department recognized pension expense of \$5,052,444. At June 30, 2021, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 394,865	\$ --
Changes in assumptions	993,272	--
Net difference between projected and actual earnings on pension plan investments	1,233,871	--
Changes in proportion and differences between Department contributions and proportionate share of contributions	2,287,341	(1,774,106)
Department contributions subsequent to the measurement date	<u>2,579,631</u>	<u>--</u>
Total	\$ <u>7,488,980</u>	\$ <u>(1,774,106)</u>

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June 30, 2021

NOTE G - EMPLOYEE BENEFITS (Continued)

At June 30, 2021, the Department reported \$2,579,631 of deferred outflows of resources related to pensions resulting from the Department's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2021 will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Net Deferred Outflows (Inflows)</u>
2022	\$ 1,432,140
2023	837,447
2024	449,810
2025	384,809
2026	31,037
	<u>\$ 3,135,243</u>

Actuarial Assumptions - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Active members - Multiples of the Pub-2010 mortality table for active employees based on the occupation of the member.

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

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

The actuarial assumptions used in the actuarial valuation as of June 30, 2020 were based on the results of an actuarial experience study as of June 30, 2018, with most of the assumptions based on the period from July 1, 2013 through June 30, 2018.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G - EMPLOYEE BENEFITS (Continued)

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are then combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns + inflation) by the target asset allocation percentage. The target allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2020 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*
Broad Growth	63.00%	7.90%	5.70%
Diversifying Strategies	37.00%	3.70%	1.50%
	<u>100.00%</u>		

*Uses an expected inflation of 2.20%

Discount Rate - The discount rate used to measure the net pension liability at June 30, 2021 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 Department 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.

Sensitivity of the Department's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Department's proportionate share of the net pension liability as of June 30, 2021, 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 one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Department's proportionate share of the net pension liability	\$ <u>45,321,338</u>	\$ <u>35,290,257</u>	\$ <u>27,020,579</u>

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June 30, 2021

NOTE G - EMPLOYEE BENEFITS (Continued)

Pension Plan Fiduciary Net Position - 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/resources/financials>.

Payables to the Pension Plan - At June 30, 2021, the amount payable to the ERS was \$321,571, which consists of statutorily required employer contributions for the month of June and an accrual for excess pension costs attributed to the fiscal year, as required by the HRS.

Postemployment Benefits Other Than Pensions (OPEB)

General Information about the OPEB Plan

Plan description. Chapter 87A of the Hawaii Revised Statutes (HRS) established the EUTF, an agent multiple-employer defined benefit plan, which provides a single delivery system of health and other benefits for state and county workers, retirees and their eligible dependents. The EUTF issues a stand-alone financial report that is available to the public on its website at <https://eutf.hawaii.gov/reports>.

Benefits provided. Chapter 87A of the HRS grants the authority to establish and amend the benefit terms to the board of trustees of the EUTF. The EUTF currently provides medical, prescription drug, dental, vision, chiropractic, supplemental medical and prescription drug, and group life insurance benefits for retirees and their dependents. The following table provides a summary of the number of employees covered by the benefits terms as of July 1, 2020:

Inactive employees or beneficiaries currently receiving benefits	101
Inactive employees entitled but not yet receiving benefit payments	13
Active employees	<u>160</u>
	<u><u>274</u></u>

Contributions - The Department's contribution levels are established by Chapter 87A of the HRS. For the fiscal year ended June 30, 2021, the Department was not required to contribute 100% of the annual required contribution (ARC), as determined by an actuary retained by the board of trustees of the EUTF. The ARC represents a level of funding that is sufficient to cover 1) the normal cost, which is the cost of the other postemployment benefits attributable to the current year of service; and 2) an amortization payment, which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next thirty years. For the fiscal year ended June 30, 2021, contributions to the OPEB plan from the Department totaled \$1,210,523 which resulted in an average contribution rate of approximately 10.45% of covered-employee payroll.

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NOTE G - EMPLOYEE BENEFITS (Continued)

For employees hired before July 1, 1996, the Department 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. The Department's contribution is based on the plan selected by the retiree (single, two-party, or family plans).

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than 10 years of service, the Department makes no contributions. For those retiring with at least 10 years of service but fewer than 15 years of service, the Department pays 50% of the base monthly contribution. For employees retiring with at least 15 years of service but fewer than 25 years of service, the Department pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the Department pays 100% of the base monthly contribution. The Department's contribution is based on the plan selected by the retiree (single, two-party, or family plans).

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

Net OPEB Liability

The Department's net OPEB liability as of June 30, 2021 was measured as of July 1, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age normal
Discount rate	7.00%
Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation

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NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G - EMPLOYEE BENEFITS (Continued)

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

* Blended rates for medical and prescription drug

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June 30, 2021

NOTE G - EMPLOYEE BENEFITS (Continued)

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, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Non-U.S. equity	16.00%	7.72%
U.S. equity	14.00%	6.23%
Private equity	10.00%	9.66%
Core real estate	10.00%	5.98%
Trend following	8.00%	2.12%
U.S. microcap	6.00%	7.85%
Global options	6.00%	4.65%
Private credit	6.00%	5.50%
Long treasuries	6.00%	0.86%
Alternative risk premium	5.00%	1.56%
TIPS	5.00%	0.11%
Reinsurance	5.00%	4.34%
Core bonds	3.00%	0.08%
	100.00%	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2021 was 7.00%. The discount rate was based on the expected rate of return on OPEB plan investments of 7.00%.

The Department's funding policy is to pay the 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 for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G - EMPLOYEE BENEFITS (Continued)

Changes in the Net OPEB Liability

The following schedules presents the changes in the net OPEB liability for the fiscal year ending June 30, 2021:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2020	\$ 35,611,034	\$ 19,531,287	\$ 16,079,747
Changes for the fiscal year:			
Service cost	773,607	--	773,607
Interest on the total OPEB liability	2,483,573	--	2,483,573
Difference between expected and actual experience	(2,403,748)	--	(2,403,748)
Change of assumptions	(190,921)	--	(190,921)
Contributions - employer	--	1,977,000	(1,977,000)
Net investment income	--	376,721	(376,721)
Benefit payments	(1,036,438)	(1,036,438)	--
Administrative expense	--	(3,013)	3,013
Other	--	(2,264)	2,264
Net changes	(373,927)	1,312,006	(1,685,933)
Balance at June 30, 2021	\$ 35,237,107	\$ 20,843,293	\$ 14,393,814

The healthcare trend assumption was updated in the July 1, 2020 actuarial valuation to reflect the repeal of the "Cadillac Tax" on high-cost employer health plans, which resulted in a decrease to the total OPEB liability as of June 30, 2021.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - 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 a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ 19,857,974	\$ 14,393,814	\$ 10,046,035

County of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G - EMPLOYEE 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 one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ 9,809,296	\$ 14,393,814	\$ 20,268,633

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2021, the Department recognized OPEB expense of \$1,571,788. At June 30, 2021, the Department reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ --	\$ (2,910,951)
Changes of assumptions	332,234	(162,341)
Net difference between projected and actual earnings on OPEB plan investments	1,041,066	--
Employer contributions subsequent to the measurement date	1,210,523	--
	<u>\$ 2,583,823</u>	<u>\$ (3,073,292)</u>

County of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE G - EMPLOYEE BENEFITS (Continued)

At June 30, 2021, the Department reported \$1,210,523 as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date, which will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2021 will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30:	Net Deferred Inflows
2022	\$ (290,667)
2023	(230,950)
2024	(228,519)
2025	(281,885)
2026	(403,738)
Thereafter	(264,233)
	\$ <u>(1,699,992)</u>

Deferred Compensation Plan

The Department participates in a deferred compensation plan established by the State of Hawai'i in accordance with Internal Revenue Code Section 457. The plan is available to all the Department 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 Department has no responsibility for loss due to the investment or failure of investment of funds and assets in the plans, but does have the duty of due care that would be required of an ordinary prudent investor.

NOTE H - COMMITMENTS AND CONTINGENT LIABILITIES

Risk Management - The Department is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; employee injuries and illnesses; and natural disasters. The Department maintains property, auto liability, and general liability insurance policies. The Department remains self-insured for workers' compensation liability.

Liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Claim liabilities are based on the estimated ultimate cost of settling the claims, and include incremental costs for the hiring of special counsel and expert witnesses. Claims liabilities are estimated by a case-by-case review of all claims and the application of historical experience to outstanding claims.

County of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE H - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Construction Contracts - The Department is obligated under construction contracts for the utility plant and other projects. Such commitments totaled \$34,022,885 at June 30, 2021.

Litigation - The Department is involved in various legal proceedings arising in the ordinary course of business. The Department provides for losses that, in the opinion of management, are both probable of being incurred and that can be reasonably estimated. In management's opinion, losses, if any, would not materially affect the Department's financial position or results of operations.

NOTE I - RELATED PARTY TRANSACTIONS

Long-term Debt - As discussed in Note E, the County has issued general obligation bonds on the Department's behalf for improvements to the water system. The Department is liable to the County for its proportionate share of the debt service requirements. In connection with these general obligation bond issues, long-term debt payable to the County totaled \$18,831,243 at June 30, 2021. Accrued interest payable to the County totaled \$340,850 at June 30, 2021.

Operating Lease - The Department leases office space in its Hilo office to the County. The term of the lease is for ten years, starting on October 1, 2013, with an option to extend for an additional ten years. The County is also obligated to pay for common area maintenance expense. Thereafter and for the duration of the lease term, annual lease rent from the County, including common area maintenance will be approximately \$236,000, subject to annual adjustments to the monthly common area maintenance charge. Payments received from the County in connection with this lease totaled approximately \$236,000 during the fiscal year ended June 30, 2021.

As of June 30, 2021, future minimum lease rental income was as follows:

Fiscal Year Ending June 30,	Amount
2022	\$ 236,000
2023	236,000
2024	<u>59,000</u>
	\$ <u>531,000</u>

County of Hawai'i
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NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE I - RELATED PARTY TRANSACTIONS (Continued)

Other - Amounts due to the County totaled approximately \$225,000 as of June 30, 2021.

The County provides the Department with various administrative services including treasury, legal, audit, and workers' compensation administration. The cost for these services are generally invoiced and reimbursed on an annual basis.

NOTE J - PRIOR PERIOD ADJUSTMENT

The financial statements for the fiscal year ended June 30, 2020 contained an error related to construction work in progress and preliminary survey and investigation charges that should have been placed in service and classified as utility plant in service as of June 30, 2018. Therefore, an adjustment was made to increase utility plant in service by \$13,163,292, decrease construction work in progress by \$11,672,265, and decrease preliminary survey and investigation charges by \$1,491,027 for the fiscal year ended June 30, 2020. The effect for the fiscal year ended June 30, 2020 was an increase in depreciation expense of \$494,914 and a decrease in beginning net position of \$742,370 in relation to depreciation expense for the fiscal years ended June 30, 2019 and 2018.

NOTE K - NOVEL CORONAVIRUS DISEASE

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus disease (COVID-19) as a pandemic, which has led to an economic downturn on a global scale that has created significant uncertainty, volatility, and disruption across economies and financial markets. The pandemic has also resulted in federal, state, and local governments and private entities mandating various restrictions, including travel and business restrictions, temporary closures of nonessential businesses, and wide-sweeping quarantines and stay-at-home orders. While the disruption caused by COVID-19 is expected to be temporary, there is uncertainty around the duration and severity of the pandemic. The related financial impact on the Department's financial statements cannot be reasonably determined at this time.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN
MANAGEMENT'S DISCUSSION AND ANALYSIS**

County of Hawai'i
Department of Water Supply
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SCHEDULE OF PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
Last Ten Fiscal Years*

Measurement Period Ended	Proportion of the Net Pension Liability (%)	Proportionate Share of the Net Pension Liability (\$)	Covered Payroll	Proportionate Share of the Net Pension Liability as a %age of Covered Payroll	Plan Fiduciary Net Position as a %age of the Total Pension Liability
June 30, 2020	0.23%	\$ 35,290,257	\$ 10,439,473	338.0%	53.18%
June 30, 2019	0.23%	\$ 32,029,248	\$ 10,318,136	310.4%	54.87%
June 30, 2018	0.25%	\$ 33,522,053	\$ 9,742,400	344.1%	55.48%
June 30, 2017	0.22%	\$ 28,365,453	\$ 9,358,187	303.1%	54.80%
June 30, 2016	0.22%	\$ 29,247,607	\$ 9,046,930	323.3%	51.28%
June 30, 2015	0.22%	\$ 18,940,065	\$ 9,012,196	210.2%	62.42%
June 30, 2014	0.26%	\$ 20,526,993	\$ 8,272,307	248.1%	63.92%
June 30, 2013	0.21%	\$ 18,469,400	\$ 7,640,477	241.7%	57.96%

* This schedule is intended to present information for 10 years, as of the measurement date of the collective net pension liability for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information.

County of Hawai'i
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SCHEDULE OF CONTRIBUTIONS (PENSION)
Last Ten Fiscal Years

Fiscal Year Ended	Statutorily Required Contribution	Actual Department Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a %age of Covered Payroll
June 30, 2021	\$ 2,579,631	\$ 2,579,631	\$ --	\$ 11,016,038	23.42%
June 30, 2020	\$ 2,258,593	\$ 2,258,593	\$ --	\$ 10,439,473	21.64%
June 30, 2019	\$ 1,950,328	\$ 1,950,328	\$ --	\$ 10,318,136	18.90%
June 30, 2018	\$ 1,757,461	\$ 1,757,461	\$ --	\$ 9,742,400	18.04%
June 30, 2017	\$ 1,603,278	\$ 1,603,278	\$ --	\$ 9,358,187	17.13%
June 30, 2016	\$ 1,553,128	\$ 1,553,128	\$ --	\$ 9,046,930	17.17%
June 30, 2015	\$ 1,520,994	\$ 1,520,994	\$ --	\$ 9,012,196	16.88%
June 30, 2014	\$ 1,664,580	\$ 1,664,580	\$ --	\$ 8,272,307	20.12%
June 30, 2013	\$ 1,214,933	\$ 1,214,933	\$ --	\$ 7,640,477	15.90%
June 30, 2012	\$ 1,210,106	\$ 1,210,106	\$ --	\$ 7,849,473	15.42%

See accompanying notes to required supplementary information.

County of Hawai'i
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 68
Fiscal Year Ended June 30, 2021

NOTE A - CHANGES OF ASSUMPTIONS

There were no changes of assumptions or other inputs that significantly affected the measurement of the total pension liability since the measurement period ended June 30, 2016.

Amounts reported in the schedule of the proportionate share of the net pension liability as of the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017) were significantly impacted by the following changes of actuarial assumptions:

- The investment return assumption decreased from 7.65% to 7.00%
- Mortality assumptions were modified to assume longer life expectancies as well as to reflect continuous mortality improvement

Prior to the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017), there were no other factors, including the use of different assumptions that significantly affect trends reported in these schedules.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
AND RELATED RATIOS
Last Ten Fiscal Years *

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability				
Service cost	\$ 773,607	\$ 746,672	\$ 698,126	\$ 687,414
Interest on the total OPEB liability	2,483,573	2,349,959	2,264,524	2,135,490
Difference between expected and actual experience of the total OPEB liability	(2,403,748)	(314,598)	(1,184,347)	--
Changes of assumptions	(190,921)	137,542	432,233	--
Benefit payments	<u>(1,036,438)</u>	<u>(1,012,084)</u>	<u>(1,016,548)</u>	<u>(953,288)</u>
Net change in total OPEB liability	(373,927)	1,907,491	1,193,988	1,869,616
Total OPEB liability - Beginning	<u>35,611,034</u>	<u>33,703,543</u>	<u>32,509,555</u>	<u>30,639,939</u>
Total OPEB liability - Ending	\$ <u>35,237,107</u>	\$ <u>35,611,034</u>	\$ <u>33,703,543</u>	\$ <u>32,509,555</u>
Plan fiduciary net position				
Contributions - employer	\$ 1,977,000	\$ 1,990,000	\$ 1,936,548	\$ 1,867,788
Net investment income	376,721	764,696	1,111,306	1,245,946
Benefit payments	(1,036,438)	(1,012,084)	(1,016,548)	(953,288)
Administrative expense	(3,013)	(5,493)	(3,336)	(2,782)
Other	<u>(2,264)</u>	<u>522,371</u>	<u>--</u>	<u>16,370</u>
Net change in plan fiduciary net position	1,312,006	2,259,490	2,027,970	2,174,034
Plan fiduciary net position - Beginning	<u>19,531,287</u>	<u>17,271,797</u>	<u>15,243,827</u>	<u>13,069,793</u>
Plan fiduciary net position - Ending	\$ <u>20,843,293</u>	\$ <u>19,531,287</u>	\$ <u>17,271,797</u>	\$ <u>15,243,827</u>
Net OPEB liability	\$ <u>14,393,814</u>	\$ <u>16,079,747</u>	\$ <u>16,431,746</u>	\$ <u>17,265,728</u>
Plan fiduciary net position as a percentage of the total OPEB liability	59.15%	54.85%	51.25%	46.89%
Covered-employee payroll	\$ 10,266,331	\$ 10,264,425	\$ 10,212,595	\$ 9,791,132
Net OPEB Liability as a Percentage of Covered-employee Payroll	140.20%	156.66%	160.90%	176.34%

*This schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
SCHEDULE OF CONTRIBUTIONS (OPEB)
Last Ten Fiscal Years

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a %age of Covered- Employee Payroll
June 30, 2021	\$ 2,046,000	\$ 1,210,523	\$ 835,477	\$ 11,587,764	10.45%
June 30, 2020	\$ 1,977,000	\$ 1,977,000	\$ --	\$ 10,266,331	19.26%
June 30, 2019	\$ 1,990,000	\$ 1,990,000	\$ --	\$ 10,264,425	19.39%
June 30, 2018	\$ 1,933,000	\$ 1,936,548	\$ (3,548)	\$ 10,212,595	18.96%
June 30, 2017	\$ 1,867,000	\$ 1,867,788	\$ (788)	\$ 9,791,132	19.08%
June 30, 2016	\$ 1,914,000	\$ 1,913,204	\$ 796	\$ 9,464,649	20.21%
June 30, 2015	\$ 1,850,000	\$ 1,848,389	\$ 1,611	\$ 9,426,509	19.61%
June 30, 2014	\$ 1,899,000	\$ 1,900,758	\$ (1,758)	\$ 8,635,402	22.01%
June 30, 2013	\$ 1,834,000	\$ 1,833,733	\$ 267	\$ 7,966,529	23.02%
June 30, 2012	\$ 2,400,000	\$ 2,401,487	\$ (1,487)	\$ 8,182,968	29.35%

See accompanying notes to required supplementary information.

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 75
Fiscal Year Ended June 30, 2021

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The actuarially determined annual required contributions ("ARC") for the fiscal year ending June 30, 2021 was developed in the July 1, 2018 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2021:

Actuarial valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	16.9 as of June 30, 2021
Asset valuation method	4-year smoothed market
Inflation rate	2.50%
Investment rate of return	7.00%
Payroll growth	3.50%
Salary increases	3.50% to 7.00% including inflation
Demographic assumptions	Based on the experience study covering the five year period ending June 30, 2015 as conducted for the Hawaii Employees' Retirement System (ERS)
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 10%, declining to a rate of 4.86% after 13 years
HMO	Initial rate of 10%, declining to a rate of 4.86% after 13 years
Part B	Initial rates of 4% and 5%; declining to a rate of 4.7% after 12 years
Dental	5% for the first 3 years; then 4% for all future years
Vision	0% for the first 3 years; then 2.5% for all future years
Life Insurance	0.00%

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 75
Fiscal Year Ended June 30, 2021

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS (Continued)

There were no other factors that significantly affected trends in the amounts reported in the schedule of changes in the net OPEB liability and related ratios or the schedule of contributions (OPEB).

**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 Water Board
County of Hawai'i, Department of Water Supply

We have audited, 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, the financial statements of the County of Hawai'i, Department of Water Supply (Department), a component unit of the County of Hawai'i, State of Hawai'i, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated January 21, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

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*.

Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, Hawaii
January 21, 2022

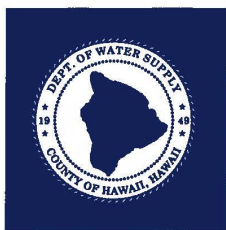
County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
SCHEDULE OF FINDINGS AND RESPONSES
Fiscal Year Ended June 30, 2021

Ref. No.	Description
2021-001	<p>Improve Internal Controls Over Accounting for Constructed Capital Assets</p> <p>Criteria:</p> <p>Once constructed capital assets are completed and placed into operations, they should be depreciated over their estimated useful lives.</p> <p>Condition:</p> <p>During our testing of construction work in progress, we noted the Department had placed several projects into operations. However, these projects were not accounted for as completed projects and were not being depreciated over their estimated useful lives.</p> <p>Cause:</p> <p>Management transfers constructed capital assets from construction work in progress to utility plant in service once the project is fully closed and all outstanding items are resolved. However, management does not have a system in place to track whether these projects are placed into operations prior to that.</p> <p>Effect:</p> <p>The following adjustments were necessary:</p> <ul style="list-style-type: none">• Increase utility plant in service and decrease construction work in progress by \$1,583,953 as of June 30, 2021.• Increase utility plant in service by \$13,163,292, decrease construction work in progress by \$11,672,265, and decrease preliminary survey and investigation charges by \$1,491,027 as of July 1, 2020.• Increase depreciation expense by \$247,457, increase accumulated depreciation by \$1,484,741, and decrease beginning net position by \$1,237,284 as of and for the fiscal year ended June 30, 2021. <p>Recommendation:</p> <p>Management should monitor construction work in progress to ensure constructed capital assets placed into operations are being accounted for properly.</p> <p>Views of Responsible Officials and Planned Corrective Action:</p> <p>The Department agrees with the finding and recommendation. See Corrective Action Plan.</p>

County of Hawai'i
Department of Water Supply
(A component unit of the County of Hawai'i, State of Hawai'i)
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
Fiscal Year Ended June 30, 2021

Ref. No.	Description
2021-002	<p>Improve Internal Controls Over Accounting for Significant Nonroutine Transactions</p> <p>Criteria:</p> <p>Accounting for nonroutine transactions, including issuance of debt, may require the application of accounting principles that an entity's personnel may not be familiar with. Issuance of debt should be recorded on the closing date.</p> <p>Condition:</p> <p>During our testing of grant awards, we noted the Department recorded debt related to an intergovernmental grant award not in accordance with GAAP.</p> <p>Cause:</p> <p>Although a grant award was executed, management presumed that accounting treatment applicable to other grant awards would apply to this specific grant award. Long-term debt was recorded prior to a closing date or debt proceeds received.</p> <p>Effect:</p> <p>An adjustment was necessary to decrease intergovernmental receivables and long-term debt by \$2,640,961 as of June 30, 2021.</p> <p>Recommendation:</p> <p>Management should identify significant, nonroutine accounting transactions and ensure that a process is established whereby management-level fiscal personnel are actively involved in both the determination of the proper accounting treatment and the timely review of the transactions posted to the Department's accounting system.</p> <p>Views of Responsible Officials and Planned Corrective Action:</p> <p>The Department agrees with the finding and recommendation. See Corrective Action Plan.</p>

CORRECTIVE ACTION PLAN



DEPARTMENT OF WATER SUPPLY • COUNTY OF HAWAII

345 KEKŪANAŌ'A STREET, SUITE 20 • HILO, HAWAII 96720
TELEPHONE (808) 961-8050 • FAX (808) 961-8657

January 21, 2022

Mr. Chad K. Funasaki, CPA, CGMA
N&K CPAs, Inc.
999 Bishop Street Suite 2200
Honolulu, HI 96813

Dear Mr. Funasaki:

Subject: N&K CPAs' Independent Auditor's Report, Schedule of Findings and Responses, Fiscal Year Ended, June 30, 2021

N&K CPAs' Independent Auditor's Report of the Department of Water Supply (DWS) has been reviewed. The findings included in your report will be addressed in accordance with your recommendations as follows:

2021-001 Improve Internal Controls Over Accounting for Constructed Capital Assets

Management's Response:

The Department intends to implement the auditor's recommendation. Management will review the current accounting system and workflow for construction work in progress and implement necessary coordination and improvements to ensure timely shifting of assets to fixed asset account(s) once they are placed in service.

2021-002 Improve Internal Controls Over Accounting for Significant Non-Routine Transactions

Management's Response:

The Department intends to implement the auditor's recommendation to ensure proper accounting treatment of non-routine transactions.

We appreciate your review and recommendations. If you have any questions, please do not hesitate to contact us at (808) 961-8050.

Sincerely yours,

Keith Okamoto, P.E.
Manager-Chief Engineer

CG:dmj

... Water, Our Most Precious Resource ... Ka Wai A Kāne ...

The Department of Water Supply is an Equal Opportunity provider and employer.