



County of Hawai'i

Department of Water Supply

(A component unit of the County of Hawai'i, State of Hawai'i)

Financial Statements

June 30, 2024



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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June 30, 2024

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Report of Independent Auditors

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

Opinion

We have audited the accompanying financial statements of the County of Hawai'i, Department of Water Supply (the "Department"), a component unit of the County of Hawai'i, State of Hawai'i (the "County"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, as listed in the index.

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, 2024, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Department and do not purport to, and do not present fairly, the financial position of the County as of June 30, 2024, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

999 Bishop Street
Suite 2300
Honolulu, HI 96813

OFFICE 808.531.3400
FAX 808.531.3433
accuityllp.com



Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the schedule of the Department's proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the net other postemployment benefits ("OPEB") liability and related ratios, and schedule of OPEB contributions on pages 39 through 43 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 June 30, 2025, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawai'i
June 30, 2025

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 (Unaudited)
June 30, 2024

The Department of Water Supply, County of Hawai‘i (the “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.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department’s financial statements, which consist of the basic financial statements and notes to the financial statements.

Basic 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 *statement of net position* presents 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 \$249.8 million, at the close of the most recent fiscal year. This represents an increase of \$12.1 million, or 5.1% more than the previous year. At June 30, 2024, \$221.8 million of the Department’s net position was its net investment in capital assets, and \$28.0 million was unrestricted.

The *statement of revenues, expenses, and changes in net position* presents 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 this statement for some items that will result in cash flows in future fiscal periods.

The *statement of cash flows* presents 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 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 basic 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 and the Employer-Union Health Benefits Trust Fund of the State of Hawai‘i.

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 (Unaudited)
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Condensed Financial Information

The following are summaries from the Department’s financial statements as of and for the years ended June 30, 2024 and 2023:

Condensed Statements of Net Position

	2024	2023
Assets		
Capital assets, net	\$ 293,481,490	\$ 296,222,885
Other assets	<u>85,196,433</u>	<u>74,630,869</u>
Total assets	378,677,923	370,853,754
Deferred outflows of resources	<u>6,413,936</u>	<u>6,054,176</u>
Total assets and deferred outflows of resources	<u><u>\$ 385,091,859</u></u>	<u><u>\$ 376,907,930</u></u>
Liabilities		
Long-term debt	\$ 72,116,612	\$ 74,705,428
Other liabilities	<u>52,334,779</u>	<u>53,371,144</u>
Total liabilities	124,451,391	128,076,572
Deferred inflows of resources	10,811,336	11,063,535
Net position		
Net investment in capital assets	221,845,308	222,033,011
Unrestricted	<u>27,983,824</u>	<u>15,734,812</u>
Total net position	<u>249,829,132</u>	<u>237,767,823</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 385,091,859</u></u>	<u><u>\$ 376,907,930</u></u>

Financial Analysis

Capital assets, net decreased by \$2.7 million, or 0.9%, during the year ended June 30, 2024 (“FY2024”), due primarily to an increase in utility plant in service of \$8.3 million, offset by an increase in accumulated depreciation of \$14.7 million, and an increase in preliminary survey and investigation charges and construction work in progress totaling \$3.5 million.

Other assets increased by \$10.6 million, or 14.2% in FY2024, due primarily to increases in cash and cash equivalents of \$2.2 million, \$8.1 million in investments and \$0.3 million in trade and intergovernmental receivables.

Deferred outflows of resources increased by \$0.4 million, or 5.9%, in FY2024, due primarily to an increase in deferred outflows of resources related to OPEB of \$0.5 million offset by a decrease in deferred outflows of resources related to pensions by \$0.1 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 (Unaudited)
June 30, 2024

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2024	2023
Changes in net position		
Operating revenues – water sales	\$ 67,474,686	\$ 64,563,053
Total operating expenses	<u>(65,084,240)</u>	<u>(62,909,152)</u>
Operating income	2,390,446	1,653,901
Nonoperating revenues	2,243,706	1,450,123
Nonoperating expenses	<u>(1,746,915)</u>	<u>(1,658,805)</u>
Income before contributions	2,887,237	1,445,219
Contributions in aid of construction	<u>9,174,072</u>	<u>10,573,824</u>
Change in net position	12,061,309	12,019,043
Net position		
Beginning of year	237,767,823	218,035,418
Prior period adjustment	-	7,713,362
End of year	<u>\$ 249,829,132</u>	<u>\$ 237,767,823</u>

Long-term debt decreased by \$2.6 million, or 3.5%, in FY2024, due primarily to bond and loan repayments of \$2.6 million, offset by SRF loan proceeds of \$7.7 million that was offset with loan forgiveness of \$4.0 million and SRF loan repayments of \$3.7 million.

Other liabilities decreased by \$1.0 million, or 1.9% in FY2024, due primarily to a decrease of \$1.8 million in customer deposits for water commitment that resulted from expired water commitments, \$1.6 million decrease in net pension liability, and a \$1.0 million decrease in net OPEB liability offset by an increase of \$2.8 million in accrued compensation which was due primarily to the settlement agreement regarding temporary hazard pay for the employees that worked during the COVID period of March 2020 through March 2022 and an increase of \$0.2 million in accounts and construction contracts payable and an increase of \$0.3 million in accrued workers’ compensation.

Deferred inflows of resources decreased by \$0.3 million, or 2.3%, in FY2024, due primarily to increases in deferred inflows of resources related to pensions of \$0.7 million offset by a decrease in deferred inflows of resources related to OPEB of \$0.7 million and a decrease in deferred inflows of resources related to leases of \$0.2 million.

Net investment in capital assets decreased by \$0.2 million, or 0.1%, in FY2024, due primarily to a \$2.7 million or 0.9% decrease in net capital assets offset by a \$2.6 million or 3.5% decrease in long-term debt.

Total net position increased \$12.1 million, or 5.1%, in FY2024, due primarily to the total income before contributions of \$2.9 million and \$9.2 million in contributions in aid of construction (“CIAC”) offset by \$1.7 million in total nonoperating expenses.

In June 2022, the Water Board approved a 9.5% rate increase for water consumption and standby charges that became effective July 1, 2023. Power charges were also adjusted throughout the fiscal year to reflect the changes in electricity costs. Total operating revenues increased by \$2.9 million or 4.5% in FY2024, due primarily to an increase in water consumption charges of \$2.6 million and standby charges of \$1.7 million offset by a decrease in power charges of \$1.4 million.

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Operating expenses increased by \$2.2 million, or 3.5%, in FY2024, due primarily to an increase in maintenance and repairs, general and administrative, customers’ accounting and collecting, purification, and transmission and distribution expenses of \$5.0 million offset by a decrease in power and pumping and depreciation expenses of \$2.8 million.

Contributions in aid of construction decreased by \$1.4 million, or 13.2%, in FY2024, due primarily to a decrease of \$2.4 million in expired customer deposits for water commitment offset by an increase in current year dedications of \$0.5 million and an increase of \$0.6 million federal funding for reimbursement of capital expenditures that includes principal forgiveness for the SRF Pro-Fi SFY 2024 loan.

Capital Assets and Debt Administration

As of June 30, 2024, the Department had \$221.8 million invested in capital assets, and \$72.1 million of long-term debt outstanding.

During 2024, major capital asset additions included:

- \$1.6 million for Distribution Mains & Access and Service Laterals
- \$1.6 million for the Hilo Ops B/Y Emergency Generator
- \$1.2 million for the Kilauea-Keawe Rehabilitation
- \$0.9 million for the Lalamilo B Deep Well Emergency Repair
- \$0.6 million for the Palani Deep Well A Emergency Repair
- \$0.3 million for the Ookala Well Emergency Repair
- \$0.3 million for the Parker #3 Deep Well Emergency Repair
- \$0.2 million for the Hualalai Deep Well Emergency Repair

More detailed information about the Department’s capital assets is provided in Note 4 to the financial statements.

At June 30, 2024, the Department had outstanding \$16.3 million in County of Hawai‘i general obligation bonds for public improvements, and \$55.8 million State of Hawai‘i revolving fund loans.

As of June 30, 2024, 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 July 1, 2024, water rates will increase 9.5% from FY2024.

Effective FY2024-2025, the Department of Water Supply is anticipating payment to employees due to the settlement agreement between the County of Hawai‘i with the United Public Workers and Hawaii Government Employees Association to resolve the grievances regarding temporary hazard pay for the employees that worked during the COVID period of March 2020 through March 2022.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County of Hawai‘i, Department of Water Supply, 345 Kekuanaoa Street, Suite 20, Hilo, HI 96720.

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, 2024

Assets and Deferred Outflows of Resources

Current assets

Cash and cash equivalents	\$ 45,092,014
Investments	18,552,758
Interest receivable	334,475
Trade receivables, less allowance for doubtful accounts of \$1,121,908 in 2024	9,433,583
Intergovernmental receivables	214,422
Leases receivable, current portion	214,089
Other receivables	218,073
Inventories of materials and supplies	1,723,334
Prepaid expenses and other	104,162
Total current assets	<u>75,886,910</u>

Noncurrent assets

Restricted cash	888,225
Investments	6,590,218
Leases receivable, noncurrent portion	1,831,080

Capital assets

Utility plant in service	612,171,792
Less: Accumulated depreciation	<u>(338,021,132)</u>
	274,150,660
Land and rights	5,787,581
Preliminary survey and investigation charges	1,456,452
Construction work in progress	<u>11,763,518</u>
	19,007,551
Right to use SBITA assets	116,096
Less: Accumulated amortization	<u>(76,040)</u>
	40,056
Right-to-use lease assets	375,726
Less: Accumulated amortization	<u>(92,503)</u>
	283,223
Net capital assets	<u>293,481,490</u>
Total noncurrent assets	<u>302,791,013</u>
Total assets	<u>378,677,923</u>

Deferred outflows of resources

Deferred outflows of resources related to pensions	3,809,906
Deferred outflows of resources related to OPEB	<u>2,604,030</u>
Total deferred outflows of resources	<u>6,413,936</u>
Total assets and deferred outflows of resources	<u>\$ 385,091,859</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
June 30, 2024

Liabilities, Deferred Inflows of Resources, and Net Position

Liabilities

Current liabilities

Accounts and construction contracts payable, including retainages	\$ 5,311,895
Long-term debt, current portion	6,711,144
Accrued compensation	4,817,942
Accrued interest payable	348,471
Other long-term liabilities, current portion	<u>1,193,808</u>
Total current liabilities	<u>18,383,260</u>

Noncurrent liabilities

Long-term debt, noncurrent	65,405,468
Net pension liability	29,273,892
Net OPEB liability	6,841,344
Other long-term liabilities, noncurrent portion	<u>4,547,427</u>
Total noncurrent liabilities	<u>106,068,131</u>
Total liabilities	<u>124,451,391</u>

Deferred inflows of resources

Deferred inflows of resources related to pensions	3,629,693
Deferred inflows of resources related to OPEB	5,064,554
Deferred inflows of resources related to leases	2,001,022
Unamortized gain on refunding of debt	<u>116,067</u>
Total deferred inflows of resources	<u>10,811,336</u>

Net position

Net investment in capital assets	221,845,308
Unrestricted	<u>27,983,824</u>
Total net position	<u>249,829,132</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 385,091,859</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 Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2024

Operating revenues	
Water sales	\$ 67,474,686
Operating expenses	
Power and pumping	26,055,672
Depreciation and amortization	15,659,707
General and administrative	8,244,211
Transmission and distribution	8,644,497
Purification	2,559,898
Maintenance and repairs	2,325,479
Customers’ accounting and collecting	1,594,776
Total operating expenses	<u>65,084,240</u>
Operating income	<u>2,390,446</u>
Nonoperating revenues	
Interest income	1,633,794
Other	609,912
Total nonoperating revenues	<u>2,243,706</u>
Nonoperating expenses	
Interest expense on long-term debt	(1,130,722)
Loss on disposal of capital assets	(396,695)
Other	(219,498)
Total nonoperating expenses	<u>(1,746,915)</u>
Income before contributions	<u>2,887,237</u>
Contributions in aid of construction	<u>9,174,072</u>
Change in net position	<u>12,061,309</u>
Net position	
Beginning of year	<u>237,767,823</u>
End of year	<u>\$ 249,829,132</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
Year Ended June 30, 2024

Cash flows from operating activities

Cash received from customers	\$ 67,660,854
Cash payments to suppliers for goods and services	(30,987,998)
Cash payments to employees for services	<u>(18,819,128)</u>
Net cash provided by operating activities	<u>17,853,728</u>

Cash flows from capital and related financing activities

Principal repayments on lease receivables	210,923
Acquisition and construction of capital assets	(12,143,740)
Cash received from contributions in aid of construction and other	1,953,820
Principal paid on long-term debt	(6,040,652)
Debt proceeds	7,714,698
Interest paid on long-term debt	(1,130,722)
Principal payments on SBITA liabilities	(2,890)
Principal payments on lease liabilities	<u>(31,624)</u>
Net cash used in capital and related financing activities	<u>(9,470,187)</u>

Cash flows from investing activities

Purchase of investments	(22,392,876)
Proceeds from sale and maturities of investments	14,717,548
Interest received	<u>1,457,958</u>
Net cash used in investing activities	<u>(6,217,370)</u>
Net increase in cash and cash equivalents	2,166,171

Cash and cash equivalents

Beginning of year	<u>43,814,068</u>
End of year	<u>\$ 45,980,239</u>

Reconciliation of cash and cash equivalents to the statement of net position

Unrestricted	\$ 888,225
Restricted	<u>45,092,014</u>
	<u>\$ 45,980,239</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
Year Ended June 30, 2024

**Reconciliation of operating income to net cash
provided by operating activities**

Operating income	\$ 2,390,446
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	15,659,707
Provision for doubtful accounts	107,355
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources	
Trade and other receivables	(119,257)
Inventories of materials and supplies	(84,388)
Prepaid expenses and other	(24,981)
Deferred outflows of resources related to pensions	123,356
Deferred outflows of resources related to OPEB	(483,116)
Accounts and construction contracts payable, including retainages	208,760
Accrued compensation	2,779,682
Other long-term liabilities	(99,833)
Net pension liability	(1,625,433)
Net OPEB liability	(971,126)
Deferred inflows of resources related to pensions	699,900
Deferred inflows of resources related to OPEB	(707,344)
Net cash provided by operating activities	<u>\$ 17,853,728</u>

Supplemental disclosure of noncash capital and related financial activities

Contributions of capital assets that are recorded as contributions in aid of construction	\$ 2,071,352
Amortization of unamortized gain on advanced refunding	22,109
Amortization of bond premium	262,862
Principal forgiveness of long-term debt	4,000,000

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, 2024

1. Nature of Activities

The Department of Water Supply, County of Hawai‘i (the “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 (the “County”) and are confirmed by the County Council, as required by the County Charter.

2. Summary of Significant Accounting Policies

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.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for trade receivables, valuation of noncash contributions in aid of construction, accrued workers’ compensation, pensions and postretirement healthcare and life insurance benefits, and lease transactions entered into by the Department as lessee and lessor. Actual results could differ from those estimates.

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.

Investments

Investments in time certificates of deposits are carried at cost, which approximates fair value.

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 collectibility. Account balances are

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, 2024

charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Leases

The Department has agreements to lease certain land, buildings and equipment. The lease agreements qualify as other than short-term leases under GASB Statement No. 87 and, therefore, are recorded at the present value of the future minimum lease payments beginning on the effective date of the lease agreement or July 1, 2021, whichever is later. The present value of the future minimum lease payments is measured at the discount rate which is equivalent to the incremental borrowing rate.

- **Lessee recognition and measurement** – The Department recognizes a lease payable and a right-to-use lease asset in the financial statements. At the commencement of a lease, the Department initially measures the lease payable at the present value of payments expected to be made during the lease term. Subsequently, the lease payable is reduced by the principal portion of lease payments made. Right-to-use lease assets are initially measured as the initial amount of the lease payable, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the right to use assets into service. Right-to-use lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset.
- **Lessor recognition and measurement** – The Department recognizes a lease receivable and deferred inflows of resources in the financial statements. At the commencement of a lease, the Department initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

Subscription-Based Information Technology Arrangements (“SBITA”)

The Department has SBITA subscription contracts for use of the vendor’s IT software. The SBITA contracts qualify as other than short-term SBITAs under GASB Statement No. 96 and, therefore, are recorded at the present value of the future minimum subscription payments beginning on the effective date of the SBITA term or July 1, 2022, whichever is later. The present value of the future minimum subscription payments is measured at the discount rate which is equivalent to the incremental borrowing rate.

SBITA recognition and measurement – The Department recognizes a SBITA payable and a right-to-use SBITA asset in the financial statements. At the commencement of a SBITA term, the Department measures the SBITA payable at the present value of payments expected to be made during the initial subscription term. Subsequently, the SBITA payable is reduced by the principal portion of subscription payments made. Right-to-use SBITA assets are initially measured as the sum of the initial amount of the subscription liability, plus any payments made to the SBITA vendor before commencement of the subscription term and any capitalizable implementation costs less any incentives received from the SBITA vendor at or before the commencement of the SBITA term. Right-to-use SBITA assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset.

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Inventories of Materials and Supplies

Materials and supplies are stated at cost on an average cost basis.

Restricted Assets

Unspent bond proceeds that are restricted for purchases of water system improvements are recorded as restricted assets.

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 calculated on a straight-line basis over the following estimated useful lives:

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

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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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 as of the period ending June 30, 2024 is approximately \$5,481,162.

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.

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.

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.

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.

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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 also includes the expiration of water commitment deposits. Contributions in aid of construction are recognized when they are accepted by the Water Board and when all applicable eligibility requirements have been met.

Deferred Amounts on Advanced Refundings

For advanced refunding resulting in defeasance of debt, the difference between the reacquisition price and the carrying amount of the old debt is deferred. This amount is amortized as a component of interest expense using the bonds outstanding method over the remaining life of the old debt or the life of the new, whichever is shorter. The amount deferred is reported as a deferred inflow or outflow of resources.

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.

New Accounting Pronouncements

GASB Statement No. 99

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement are effective as follows:

- 1) The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- 2) The requirements related to leases, public-private partnerships, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- 3) The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Management has determined that this Statement does not have a material impact on the Department’s financial statements.

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GASB Statement No. 100

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. This Statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). The primary objective of this Statement is to enhance the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management has determined that there were not any accounting changes or error corrections that would affect the Department’s financial statements in accordance with this Statement.

GASB Statement No. 101

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management has not yet determined the effect this Statement will have on the Department’s financial statements.

GASB Statement No. 102

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with information about risks related to a government’s vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management has not yet determined the effect this Statement will have on the Department’s financial statements.

GASB Statement No. 102

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with information about risks related to a government’s vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management has not yet determined the effect this Statement will have on the Department’s financial statements.

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GASB Statement No. 103

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Department has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 104

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this Statement is to improve users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Department has not yet determined the effect this Statement will have on its financial statements.

3. Deposits and Investments

At June 30, 2024, the carrying amount of deposits (cash, time certificates of deposit, government sponsored securities and money market funds) was \$71,123,215 with corresponding bank balance of \$72,147,806. These amounts were fully insured or collateralized with securities held by the County’s agent in the County’s name.

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 \$19,000,000 at June 30, 2024. Investments in government sponsored securities totaled \$6,142,976 at June 30, 2024.

The following summarizes the Department’s investments and maturities at June 30, 2024:

	Investment Maturities (In Years)		
	Fair Value	Less than 1	1 - 5
Investments			
Certificates of deposit	\$ 19,000,000	\$ 17,000,000	\$ 2,000,000
Government sponsored securities	6,142,976	1,552,758	4,590,218
	<u>\$ 25,142,976</u>	<u>\$ 18,552,758</u>	<u>\$ 6,590,218</u>

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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 issue.

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4. Capital Assets

The following summarizes the Department’s capital assets at June 30, 2024:

Utility plant in service	
Structures and improvements	\$ 226,492,515
Distribution mains and accessories	160,317,239
Electric and hydraulic pumping equipment	86,622,576
Transmission mains and accessories	50,428,351
Services	36,031,601
Purification system	13,884,474
Meters	11,810,447
Hydrants	11,256,760
Transportation equipment	5,654,798
Communication equipment	3,183,737
Office equipment and furniture	3,039,762
Tools and work equipment	1,691,055
Other equipment	1,738,890
Other fire protection plant	19,587
Total utility plant in service	612,171,792
Less: Accumulated depreciation	(338,021,132)
Total depreciable assets	274,150,660
Non-depreciable assets	
Land and rights	5,787,581
Preliminary survey and investigation charges	1,456,452
Construction work in progress	11,763,518
Total non-depreciable assets	19,007,551
Right-to-use lease assets	
Land	226,050
Equipment	149,676
	375,726
Accumulated amortization	
Land	(16,878)
Equipment	(75,625)
	(92,503)
Total right-to-use lease assets	283,223
Right-to-use SBITA assets	116,096
Accumulated amortization	(76,040)
Total right-to-use SBITA assets	40,056
Net capital assets	\$ 293,481,490

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The following is a summary of changes in capital assets during the year ended June 30, 2024:

	Balance at July 1, 2023	Additions/ Transfers In	Retirements/ Transfers Out	Balance at June 30, 2024
Depreciable assets				
Utility plant in service	\$ 603,842,375	\$ 9,626,466	\$ (1,297,049)	\$ 612,171,792
Less: Accumulated depreciation	<u>(323,339,622)</u>	<u>(15,581,864)</u>	<u>900,354</u>	<u>(338,021,132)</u>
Total depreciable assets	280,502,753	(5,955,398)	(396,695)	274,150,660
Land and rights	5,376,240	411,341	-	5,787,581
Preliminary survey and investigation charges	1,416,107	224,425	(184,080)	1,456,452
Construction work in progress	<u>8,689,122</u>	<u>11,091,579</u>	<u>(8,017,183)</u>	<u>11,763,518</u>
Total nondepreciable assets	<u>15,481,469</u>	<u>11,727,345</u>	<u>(8,201,263)</u>	<u>19,007,551</u>
Right-to-use lease assets				
Land	226,050	-	-	226,050
Equipment	<u>57,470</u>	<u>92,206</u>	<u>-</u>	<u>149,676</u>
	<u>283,520</u>	<u>92,206</u>	<u>-</u>	<u>375,726</u>
Accumulated amortization				
Land	(11,252)	(5,626)	-	(16,878)
Equipment	<u>(47,720)</u>	<u>(27,905)</u>	<u>-</u>	<u>(75,625)</u>
	<u>(58,972)</u>	<u>(33,531)</u>	<u>-</u>	<u>(92,503)</u>
Total right-to-use lease assets	<u>224,548</u>	<u>58,675</u>	<u>-</u>	<u>283,223</u>
Right-to-use SBITA assets	66,313	70,253	(20,470)	116,096
Less: Accumulated amortization	<u>(52,198)</u>	<u>(44,312)</u>	<u>20,470</u>	<u>(76,040)</u>
	<u>14,115</u>	<u>25,941</u>	<u>-</u>	<u>40,056</u>
Total capital assets, net	<u>\$ 296,222,885</u>	<u>\$ 5,856,563</u>	<u>\$ (8,597,958)</u>	<u>\$ 293,481,490</u>

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5. Long-Term Obligations

At June 30, 2024, long-term debt consisted of the following:

Public improvement refunding bonds (\$13,497,500 issued), 2016 Series B, payable to the County, interest at 3.0% to 5.0%, due in semiannual installments through 2026	\$ 4,710,000
Public improvement refunding bonds (\$6,353,750 issued), 2016 Series E, payable to the County, interest at 2.0% to 5.0%, due in semiannual installments through 2029	4,130,000
Public Improvement bond (\$4,105,000 issued), USDA Bond #R-1 payable to the County, interest at 2.0%, due in semiannual installments through 2057	4,105,000
Public improvement refunding bonds (\$3,751,250 issued), 2020 Series C & D, payable to the County, interest at 5.0%, due in semiannual installments through 2029	2,435,000
Public improvement bonds (\$147,000 issued), 2008 Series A, payable to the County, interest at 4.125%, due in semiannual installments through 2043	106,960
State Revolving Fund loans (\$91,714,304 loaned) payable to the State of Hawai‘i, interest up to 1%, due in semiannual installments through 2044	<u>55,796,006</u>
Total long-term debt	71,282,966
Add: Unamortized premium	<u>833,646</u>
	72,116,612
Less: Current portion	<u>(6,711,144)</u>
Noncurrent portion	<u>\$ 65,405,468</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 its full faith and credit are pledged. The State Revolving Fund Loans are secured by the gross revenues of the Department.

The remaining State Revolving Fund Loans bear interest rates ranging from 0.00% to 1.00% exclusive of a loan fees ranging from 1.00% to 3.25%.

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The following is a summary of changes in long-term debt during the year ended June 30, 2024:

	Balance at July 1, 2023	Additions	Reductions	Balance at June 30, 2024	Due Within One Year
State Revolving Fund Loans	\$ 55,737,039	\$ 7,714,698	\$ (7,655,731)	\$ 55,796,006	\$ 3,862,922
Public improvement refunding bonds	17,871,881	-	(2,384,921)	15,486,960	2,585,360
Add: Unamortized premium	1,096,508	-	(262,862)	833,646	262,862
Total long-term debt	<u>\$ 74,705,428</u>	<u>\$ 7,714,698</u>	<u>\$ (10,303,514)</u>	<u>\$ 72,116,612</u>	<u>\$ 6,711,144</u>

At June 30, 2024, future principal and interest payments for long-term debt are scheduled as follows:

	State Revolving Fund Loans		Public Improvement Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Years ending June 30,						
2025	\$ 3,862,922	\$ 866,645	\$ 2,585,360	\$ 475,828	\$ 6,448,282	\$ 1,342,473
2026	3,912,530	799,739	2,694,798	368,514	6,607,328	1,168,253
2027	3,963,514	731,382	2,804,279	256,409	6,767,793	987,791
2028	3,782,656	664,335	1,220,052	177,423	5,002,708	841,758
2029	3,834,215	602,835	1,258,370	138,897	5,092,585	741,732
2030–2034	18,576,674	2,125,115	1,733,235	380,563	20,309,909	2,505,678
2035–2039	13,703,239	872,066	595,920	300,940	14,299,159	1,173,006
2040–2044	4,160,256	131,139	653,335	235,193	4,813,591	366,332
2045–2049	-	-	688,525	167,165	688,525	167,165
2050–2054	-	-	760,187	95,503	760,187	95,503
2055–2057	-	-	492,899	19,833	492,899	19,833
	<u>\$ 55,796,006</u>	<u>\$ 6,793,256</u>	<u>\$ 15,486,960</u>	<u>\$ 2,616,268</u>	<u>\$ 71,282,966</u>	<u>\$ 9,409,524</u>

6. Other Long-Term Obligations

The following is a summary of other long-term obligations transactions for the year ended June 30, 2024:

	Balance at July 1, 2023	Additions	Deductions and Payments	Balance at June 30, 2024	Due Within One Year
Pension liability	\$ 30,899,325	\$ 910,226	\$ (2,535,659)	\$ 29,273,892	\$ -
OPEB liability	7,812,470	989,874	(1,961,000)	6,841,344	-
Customers' deposits	4,671,058	667,022	(2,361,734)	2,976,346	155,426
Accrued vacation	1,923,930	271,662	(346,445)	1,849,147	679,242
Accrued workers' compensation	300,000	324,014	-	624,014	324,488
Leases payable	227,517	92,206	(31,624)	288,099	32,144
SBITA payable	6,980	-	(3,351)	3,629	2,508
	<u>\$ 45,841,280</u>	<u>\$ 3,255,004</u>	<u>\$ (7,239,813)</u>	<u>\$ 41,856,471</u>	<u>\$ 1,193,808</u>

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7. Leases Payable

The Department has executed leases for land and equipment use expiring at various dates through fiscal year 2065. These leases include discount rates of 1.50% to 3.58%. Principal and interest payments to maturity are as follows:

	Principal	Interest	Total
Years ending June 30,			
2025	\$ 32,144	\$ 5,387	\$ 37,531
2026	27,231	4,298	31,529
2027	22,030	3,621	25,651
2028	9,798	3,059	12,857
2029	4,771	2,962	7,733
2030–2034	21,300	13,700	35,000
2035–2039	22,951	12,049	35,000
2040–2044	24,732	10,268	35,000
2045–2049	26,653	8,347	35,000
2050–2054	28,718	6,282	35,000
2055–2059	30,948	4,052	35,000
2060–2064	33,349	1,651	35,000
2065	3,474	26	3,500
	<u>\$ 288,099</u>	<u>\$ 75,702</u>	<u>\$ 363,801</u>

8. SBITA Liability

The Department has executed SBITA contracts for software as a service cloud subscriptions. The initial terms of the agreements end after three years with an option for extensions thereafter. The calculated discount rate used was 3.58%. Principal and interest payments to maturity are as follows:

	Principal	Interest	Total
Years ending June 30,			
2025	\$ 2,508	\$ 90	\$ 2,598
2026	1,121	199	1,320
	<u>\$ 3,629</u>	<u>\$ 289</u>	<u>\$ 3,918</u>

9. Employee Benefit Plans

Pension Plan

Plan Description

The Employees’ Retirement System (“ERS”) is a cost-sharing, multiple-employer public employee retirement system established as a defined benefit pension plan to administer a pension benefits program for all eligible employees of the state and counties of Hawaii. Benefit terms, eligibility, and contribution requirements are governed by Chapter 88 of the HRS and can be amended through legislation. The ERS

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issues publicly available annual financial reports that can be obtained at the ERS website:
<http://ers.ehawaii.gov/resources/financials>.

Benefits Provided

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

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

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

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 thirty 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 are 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 surviving dependent children, no benefit is payable.

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Ordinary death benefits are available to employees who were active at the 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 surviving 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 surviving dependent children receive a percentage of the member’s accrued maximum allowance unreduced for age.

Contributory Class for Members 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.
- **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 are 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 designated 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 surviving 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 twelve 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 Members 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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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 are required for ordinary disability. 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 Members 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 thirty 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 are 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 designated 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 surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Hybrid Class for Members 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 thirty years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

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

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2024 were 41% for police officers and firefighters, and 24% for all other employees. Contributions to the pension plan from the Department were \$2,579,303 for the year ended June 30, 2024.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2024, the Department reported a liability of \$29,273,892 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, 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 projection of the Department’s long-term share of contributions to the pension plan relative to the projected contributions of all participants, actuarially determined. At the measurement date of June 30, 2023, the Department’s proportionate share was 0.212%, a decrease of 0.003% from its proportionate share measured as of June 30, 2022.

There were no significant changes of assumptions or other inputs that affected measurement of the total pension liability since the measurement date. There were no changes between the measurement date, June 30, 2023, and the reporting date, June 30, 2024, that are expected to have a significant effect on the proportionate share of the net pension liability.

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For the year ended June 30, 2024, the Department recognized pension expense of \$1,832,139. At June 30, 2024, 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
Difference between actual and expected experience	\$ 576,780	\$ (300,433)
Changes in assumptions	9,639	(263,229)
Net difference between projected and actual earnings on pension plan investments	318,627	-
Changes in proportion and differences between Department contributions and proportionate share of contributions	325,557	(3,066,031)
Department contributions subsequent to the measurement date	2,579,303	-
	<u>\$ 3,809,906</u>	<u>\$ (3,629,693)</u>

At June 30, 2024, the Department reported \$2,579,303 of deferred outflows of resources related to pensions resulting from the Department’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2024 will be recognized in pension expense as follows:

Years ending June 30,	
2025	\$ (830,592)
2026	(1,143,334)
2027	36,290
2028	(356,043)
2029	(105,411)
	<u>\$ (2,399,090)</u>

Actuarial Assumptions

The total pension liability was based on the June 30, 2023 actuarial valuation. The actuarial assumptions were based on the experience study as of June 30, 2021 for the five-year period from July 1, 2016 through June 30, 2021. The following actuarial assumptions were used in the June 30, 2023 actuarial valuation:

Inflation	2.50 %
Investment rate of return, including inflation	7.00 %
Salary increases, including inflation	
General employees	3.75 % – 6.75 %

Mortality rate assumptions include the effects of the retirement status of members.

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

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The post-retirement mortality rates for healthy retirees are based on the 2022 Public Retirees of Hawai‘i mortality table, which are projected on a fully generational basis by the long-term rates of scale UMP from the year 2022 and with multiplier and setbacks based on plan and group experience. Pre-retirement mortality rates are based on multiples of the Pub-2010 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments, based on ERS’s investment consultant, 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’s Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected nominal real rates of return (real returns plus inflation) by the target asset allocation percentage.

The rate of returns for each major asset class based on the ERS’s investment consultant as of June 30, 2023 is summarized in the following table:

Strategic Allocation (Risk-Based Classes)	Strategic Class Weights	Long-Term Expected Real Rate of Return
Broad growth		
Private equity	13.50 %	10.00 %
Global equity	20.00 %	7.90 %
Low volatility equity	4.00 %	7.10 %
Global options	4.00 %	5.80 %
Credit	6.00 %	8.00 %
Core real estate	6.00 %	6.00 %
Non-core real estate	4.50 %	7.90 %
Timber/agriculture/infrastructure	5.00 %	7.20 %
Total broad growth	63.00 %	
Diversifying strategies		
TIPs	2.00 %	3.20 %
Global macro	4.00 %	6.00 %
Reinsurance	4.00 %	7.00 %
Alternative risk premia	8.00 %	5.00 %
Long treasuries	5.00 %	3.80 %
Intermediate government	4.00 %	3.20 %
Systematic trend following	10.00 %	4.70 %
Total diversifying strategies	37.00 %	
Total investments	100.00 %	

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Discount Rate

The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. 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 determined rates. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Department’s proportionate share of the net pension liability calculated using the single 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%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Department’s proportionate share of the net pension liability	<u>\$ 38,941,002</u>	<u>\$ 29,273,892</u>	<u>\$ 21,267,861</u>

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2024, the amount payable to the ERS was \$653,226, which consists of statutorily required employer contributions as of June 2024 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.

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

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

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

Employees Covered by Benefit Terms

The following table provides a summary of the number of employees covered by the benefit terms as of July 1, 2023:

Inactive employees or beneficiaries currently receiving benefits	120
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>151</u>
Total plan members	<u>280</u>

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Employer contributions to the EUTF from the Department was \$2,027,000 for the year ended June 30, 2024. The employer is required to make all contributions for members.

Net OPEB Liability

The Department’s net OPEB liability as of June 30, 2024 was measured as of July 1, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. As of June 30, 2024, the Department reported a net OPEB liability of \$6,841,344.

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Actuarial Assumptions

The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following actuarial assumptions and methods, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2023
Actuarial cost method	Entry age normal
Discount rate	7.00%
Inflation	2.50%
Salary increases	3.75% to 6.75% including inflation
Demographic assumptions	Based on the 2022 Hawaii ERS Actuarial Experience Study as conducted June 30, 2021 for the ERS
Mortality	System-specific mortality tables utilizing scale MP2021 to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution (“BMC”). Healthcare participation rates of 25%, 65% and 90% for retirees that receive 0%, 50% or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO*	Initial rate of 6.30%, declining to a rate of 4.25% after 21 years
HMO*	Initial rate of 6.30%, declining to a rate of 4.25% after 21 years
Part B & BMC	Initial rate of 5.00%, declining to a rate of 4.25% after 21 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drugs.

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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 weighing 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 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	27.50 %	7.60 %
Private equity	15.00 %	10.00 %
Real assets	12.00 %	4.30 %
Private credit	10.00 %	7.80 %
Trend following	10.00 %	0.50 %
Long treasuries	5.50 %	2.40 %
TIPS	5.00 %	2.00 %
Reinsurance	5.00 %	3.40 %
Alternative risk premia	5.00 %	3.30 %
U.S. microcap	3.00 %	8.70 %
Tail risk/ long volatility	2.00 %	(1.10)%
Global options	0.00 %	4.90 %
	<u>100.00 %</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments. The Department’s funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. 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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Changes in Net OPEB Liability

The following table presents a schedule of changes in the net OPEB liability for the year ended June 30, 2024:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2023	\$ 34,900,490	\$ 27,088,020	\$ 7,812,470
Service cost	669,524	-	669,524
Interest on the total OPEB liability	2,420,425	-	2,420,425
Difference between expected and actual experience	(842,089)	-	(842,089)
Employer contributions	-	1,961,000	(1,961,000)
Net investment income	-	1,256,994	(1,256,994)
Benefit payments	(1,315,507)	(1,315,507)	-
Administrative expense	-	(1,815)	1,815
Other	-	2,807	(2,807)
Net changes	932,353	1,903,479	(971,126)
Balance at June 30, 2024	\$ 35,832,843	\$ 28,991,499	\$ 6,841,344

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the Department’s net OPEB liability calculated using the discount rate of 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Department’s proportionate share of the net OPEB liability	<u>\$ 12,005,010</u>	<u>\$ 6,841,344</u>	<u>\$ 2,691,931</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the Department’s net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the Department’s net OPEB liability would be if it were calculated using the healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Department’s proportionate share of the net OPEB liability	<u>\$ 2,167,831</u>	<u>\$ 6,841,344</u>	<u>\$ 12,789,732</u>

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

For the year ended June 30, 2024, the Department recognized OPEB benefit of approximately \$134,386. At June 30, 2024, 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	\$ -	\$ (4,154,281)
Changes of assumptions	73,754	(910,273)
Net difference between projected and actual earnings on OPEB plan investments	503,276	-
Employer contributions subsequent to the measurement date	2,027,000	-
	<u>\$ 2,604,030</u>	<u>\$ (5,064,554)</u>

At June 30, 2024, the Department reported \$2,027,000 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 year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2024 will be recognized in OPEB expense as follows:

Years ending June 30,	
2025	\$ (1,358,019)
2026	(1,479,873)
2027	(499,964)
2028	(689,528)
2029	(389,497)
Thereafter	(70,643)
	<u>\$ (4,487,524)</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.

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10. 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.

Construction Contracts

The Department is obligated under construction contracts for the utility plant and other projects. Such commitments totaled \$24,744,016 at June 30, 2024.

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.

Effective fiscal year 2024-2025, the Department of Water Supply is anticipating payment to employees due to the settlement agreements between the County of Hawai‘i with the United Public Workers and Hawaii Government Employees Association to resolve the grievances regarding temporary hazard pay ("THP") for the employees that worked during the COVID period of March 2020 through March 2022. The Department estimated a liability of approximately \$3,100,000 related to THP, which is included in accrued compensation in the statement of net position.

11. Related Party Transactions

Long-Term Debt

As discussed in Note 5, 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 \$16,320,606 at June 30, 2024. Accrued interest payable to the County totaled \$199,014 at June 30, 2024.

Other

Amounts due to the County totaled approximately \$2,282 at June 30, 2024.

**Required Supplementary Information
Other Than Management's Discussion
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Schedule of the Proportionate Share of the Net Pension Liability**Last Ten Fiscal Years**

Measurement Period	Proportion of	Proportionate	Covered	Proportionate	Plan Fiduciary
Years ending June 30,	Net Pension	Share of Net	Payroll	Share of Net	Net Position as
	Liability	Pension Liability		Pension Liability	a Percentage of
				as a Percentage	Total Pension
				of Covered	Liability
				Payroll	
2023	0.21 %	\$ 29,273,892	\$ 10,802,083	271.0 %	61.91 %
2022	0.24 %	30,899,325	10,450,084	295.7 %	62.76 %
2021	0.24 %	29,017,165	11,016,038	263.4 %	64.25 %
2020	0.23 %	35,290,257	10,439,473	338.0 %	53.18 %
2019	0.23 %	32,029,248	10,318,136	310.4 %	54.87 %
2018	0.25 %	33,522,053	9,742,400	344.1 %	55.48 %
2017	0.22 %	28,365,453	9,358,187	303.1 %	54.80 %
2016	0.22 %	29,247,607	9,046,930	323.3 %	51.28 %
2015	0.22 %	18,940,065	9,012,196	210.2 %	62.42 %
2014	0.26 %	20,526,993	8,272,307	248.1 %	63.92 %

See accompanying note 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 Pension Contributions
Last Ten Fiscal Years

Years ending June 30,	Statutorily Required Contributions	Actual Department Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2024	\$2,579,303	\$2,579,303	\$ -	\$ 11,175,965	23.08 %
2023	2,535,659	2,535,659	-	10,802,083	23.47 %
2022	2,477,404	2,477,404	-	10,450,084	23.71 %
2021	2,579,631	2,579,631	-	11,016,038	23.42 %
2020	2,258,593	2,258,593	-	10,439,473	21.64 %
2019	1,950,328	1,950,328	-	10,318,136	18.90 %
2018	1,757,461	1,757,461	-	9,742,400	18.04 %
2017	1,603,278	1,603,278	-	9,358,187	17.13 %
2016	1,553,128	1,553,128	-	9,046,930	17.17 %
2015	1,520,994	1,520,994	-	9,012,196	16.88 %

See accompanying note 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 Changes in the Net OPEB Liability and Related Ratios
Last Ten Fiscal Years*

	2024	2023	2022	2021	2020	2019	2018
Total OPEB liability							
Service cost	\$ 669,524	\$ 754,223	\$ 762,769	\$ 773,607	\$ 746,672	\$ 698,126	\$ 687,414
Interest on the total OPEB liability	2,420,425	2,581,297	2,456,079	2,483,573	2,349,959	2,264,524	2,135,490
Difference between expected and actual experience in the measurement of total OPEB liability	(842,089)	(3,112,836)	(287,233)	(2,403,748)	(314,598)	(1,184,347)	-
Changes of assumptions	-	(1,213,900)	-	(190,921)	137,542	432,233	-
Benefit payments	(1,315,507)	(1,213,715)	(1,063,301)	(1,036,438)	(1,012,084)	(1,016,548)	(953,288)
Net change in total OPEB liability	932,353	(2,204,931)	1,868,314	(373,927)	1,907,491	1,193,988	1,869,616
Total OPEB liability – beginning	34,900,490	37,105,421	35,237,107	35,611,034	33,703,543	32,509,555	30,639,939
Total OPEB liability – ending	<u>\$ 35,832,843</u>	<u>\$ 34,900,490</u>	<u>\$ 37,105,421</u>	<u>\$ 35,237,107</u>	<u>\$ 35,611,034</u>	<u>\$ 33,703,543</u>	<u>\$ 32,509,555</u>
Plan fiduciary net position							
Employer contributions	\$ 1,961,000	\$ 2,148,000	\$ 1,210,523	\$ 1,977,000	\$ 1,990,000	\$ 1,936,548	\$ 1,867,788
Net investment income (loss)	1,256,994	(518,406)	5,666,092	376,721	764,696	1,111,306	1,245,946
Benefit payments	(1,315,507)	(1,213,715)	(1,063,301)	(1,036,438)	(1,012,084)	(1,016,548)	(953,288)
OPEB plan administrative expense	(1,815)	(2,283)	(2,922)	(3,013)	(5,493)	(3,336)	(2,782)
Other	2,807	20,789	(50)	(2,264)	522,371	-	16,370
Net change in plan fiduciary net position	1,903,479	434,385	5,810,342	1,312,006	2,259,490	2,027,970	2,174,034
Plan fiduciary net position – beginning	27,088,020	26,653,635	20,843,293	19,531,287	17,271,797	15,243,827	13,069,793
Plan fiduciary net position – ending	<u>\$ 28,991,499</u>	<u>\$ 27,088,020</u>	<u>\$ 26,653,635</u>	<u>\$ 20,843,293</u>	<u>\$ 19,531,287</u>	<u>\$ 17,271,797</u>	<u>\$ 15,243,827</u>
Net OPEB liability	<u>\$ 6,841,344</u>	<u>\$ 7,812,470</u>	<u>\$ 10,451,786</u>	<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 total OPEB liability	80.91 %	77.62 %	71.83 %	59.15 %	54.85 %	51.25 %	46.89 %
Covered-employee payroll	\$ 10,513,239	\$ 10,326,292	\$ 10,713,826	\$ 10,266,331	\$ 10,264,425	\$ 10,212,595	\$ 9,791,132
Net OPEB liability as a percentage of covered-employee payroll	65.07 %	75.66 %	97.55 %	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 note 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 OPEB Contributions
Last Ten Fiscal Years

Years ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Excess (Deficiency)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2024	\$ 2,027,000	\$ 2,027,000	\$ -	\$ 10,900,000	18.60 %
2023	1,961,000	1,961,000	-	10,513,239	18.65 %
2022	2,148,000	2,148,000	-	10,326,292	20.80 %
2021	2,046,000	1,210,523	835,477	10,713,826	11.30 %
2020	1,977,000	1,977,000	-	10,266,331	19.26 %
2019	1,990,000	1,990,000	-	10,264,425	19.39 %
2018	1,933,000	1,936,548	(3,548)	10,212,595	18.96 %
2017	1,867,000	1,867,788	(788)	9,791,132	19.08 %
2016	1,914,000	1,913,204	796	9,464,649	20.21 %
2015	1,850,000	1,848,389	1,611	9,426,509	19.61 %

See accompanying note 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)

Note to Required Supplementary Information Required by GASB Statement No. 75

Years Ended June 30, 2024

1. Significant Methods and Assumptions

The actuarially determined annual required contribution (“ARC”) for the year ended June 30, 2024 was developed in the July 1, 2021 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the year ended June 30, 2024:

Actuarial valuation date	July 1, 2021
Actuarial cost method	Individual entry age normal
Amortization method	Level percent, closed
Equivalent single amortization period	13.9% as of year ended June 30, 2024
Discount rate	7.00%
Asset valuation method	Four-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 ended June 30, 2018 as conducted for the ERS
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumptions for retirees that receive 100% of the Base Monthly Contribution (“BMC”). Healthcare participation rates of 25%, 65% and 90% for retirees that receive 0%, 50% or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO*	Initial rate of 7.25%, declining to a rate of 4.70% after 12 years
HMO*	Initial rate of 7.25%, declining to a rate of 4.70% after 12 years
Part B & BMC	Initial rate of 5.00%, declining to a rate of 4.70% after 9 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drugs.

Prior to the year ended June 30, 2024, there were no other factors, including the use of different assumptions 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 OPEB contributions.

There were no assumption changes during the current measurement period.

See accompanying report of independent auditors.