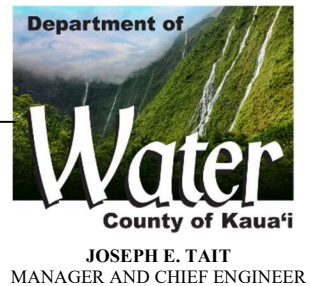


BOARD OF WATER SUPPLY

KURT AKAMINE CHAIR
JULIE SIMONTON, VICE CHAIR
TOM SHIGEMOTO, SECRETARY

LAWRENCE DILL, MEMBER
KA'AINA HULL, MEMBER
TROY TANIGAWA, MEMBER



REGULAR MONTHLY MEETING NOTICE AND AGENDA

Thursday, February 16, 2023
9:30 a.m. or shortly thereafter

Meetings of the Board of Water Supply, County of Kaua'i will be conducted in-person at the Department of Water Board Room, 2nd Floor located at 4398 Pua Loke Street, Lihue, Kauai, Hawaii, and remotely in accordance with Act 220, Session Laws of Hawai'i 2021 via interactive conference technology as follows:

Click on the link below to join on your computer or mobile app by VIDEO:

<https://us06web.zoom.us/j/85212238198>

Passcode: 831277

OR

Dial phone number and enter conference ID to call in and join by AUDIO:

Phone: 888 788 0099 US Toll-free

Phone Conference ID: 852 1223 8198

Please Note: If you do not provide a name, unique identifier, or alias when joining the meeting, you will be renamed to allow staff to address and manage individual guests.

In the event of a lost connection the Board will recess for up to 30 minutes to restore the connection. If the connection cannot be restored within 30 minutes, the Board will continue the meeting to 12:00 p.m. or shortly thereafter. If the visual link cannot be restored, the Board may reconvene with an audio-only link using the above dial-in phone number and conference ID. A lost connection only applies to remote connections provided as part of the remote meeting but does not apply to a public member being unable to access the meeting due to a connectivity issue on their end.

CALL TO ORDER

ROLL CALL

ANNOUNCEMENTS

Next Scheduled Meeting: Thursday, March 16, 2023 – 9:30 a.m.

APPROVAL OF AGENDA

MEETING MINUTES

1. Regular Board Meeting – January 26, 2023
2. Executive Session – January 26, 2023

PUBLIC TESTIMONY

CORRESPONDENCE

1. Letter from N&K CPAs, Inc. dated September 6, 2023, Re: Audit Planning of Department of Water, County of Kauai financial statements as of June 30, 2022
2. Letter from N&K CPAs, Inc. dated January 30, 2023, Re: Audit Conclusion of Department of Water, County of Kauai financial statements as of June 30, 2022

NEW BUSINESS

1. Manager's Report No. 23-21: Discussion and Receipt of the Department of Water's (DOW) Draft Audit Report by N&K CPAs, Inc. for Fiscal Years 2022/2021

STAFF REPORTS

1. Public Relations Activities – updates on Public Notices & Announcements, Community Outreach & Education and Upcoming Events
2. Fiscal – Monthly service dashboard and highlights
 - a. Statement of Revenues and Expenditures
 - b. January Monthly Summary Budget
 - c. Accounts Receivable Aging Summary
3. Operations – Monthly service dashboard and highlights
4. Engineering
5. Manager and Chief Engineer – Monthly service dashboard, update on monthly activities, personnel matters, and required communications to the Board

TOPICS FOR NEXT BOARD OF WATER SUPPLY MEETING: (March)

1. Update regarding DOW's Water System Investment Plan

TOPICS FOR FUTURE BOARD OF WATER SUPPLY MEETING

1. Updates on various DOW Programs (*April*)
2. Report from Manager and Chief Engineer – Manager's DOW Performance Audit (*June*)

EXECUTIVE SESSION:

Pursuant to Hawai'i Revised Statutes (HRS) §92-7(a), the Board may, when deemed necessary, hold an executive session on any agenda item without written public notice if the Executive Session was not anticipated in advance. Any such executive session shall be held pursuant to HRS §92-4 and shall be limited to those items described in HRS §92-5(a).

Pursuant to Hawai'i Revised Statutes § 92-4 and § 92-5(a)(4), the purpose of this Executive Session is for the Board to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities as it relates to:

1. Goodfellow Bros.' Request for Reimbursements, Job No. 15-07, Reorganize Water System: Kaumuali'i Highway 16-Inch Main and Emergency Pump Connection, Hanapēpē Road 6-Inch Main Replacement, Job No. 15-07, Water Plan Project No. HE-01, HE-10, Hanapēpē, Kaua'i, Hawai'i (Civil No. 5CCV-21-000098)

ADJOURNMENT

WRITTEN TESTIMONY

The Board is required to afford all interested persons an opportunity to present testimony on any agenda item. The Board encourages written testimony at least two (2) business days prior to a scheduled Board meeting. At each Board meeting, the Board will accept oral and written testimony on any agenda item during the Public Testimony portion.

Please include:

1. Your name and if applicable, your position/title and organization you are representing
2. The agenda item that you are providing comments on; and
3. Whether you are a registered lobbyist and, if so, on whose behalf you are appearing.

Send written testimony to:

Board of Water Supply, County of Kaua'i
C/O Administration
4398 Pua Loke Street
Līhu'e, Hawai'i 96766

E-Mail: board@kauaiwater.org
Phone: (808) 245-5406
Fax: (808) 245-5813

Public Testimony

You do not need to register to provide oral testimony on the day of the meeting. Please note that public testimony is taken after the approval of the meeting agenda to ensure public testimony is received before any action is taken on an agenda item. The length of time allocated to present oral testimony may be limited at the discretion of the chairperson.

SPECIAL ASSISTANCE

If you need an auxiliary aid/service or other accommodation due to a disability, or an interpreter for non-English speaking persons, please call (808) 245-5406 or email board@kauaiwater.org as soon as possible. Requests made as early as possible will allow adequate time to fulfil your request. Upon request, this notice is available in alternate formats such as large print, Braille, or electronic copy.

A horizontal splash of clear blue water with bubbles, positioned behind the text.

DRAFT

MINUTES

MINUTES
BOARD OF WATER SUPPLY
Thursday, January 26, 2023

The Board of Water Supply, County of Kaua'i, met in a regular meeting in Līhu'e on Thursday, January 26, 2023. Chair Julie Simonton called the meeting to order at 9:37 a.m. The following Board members were present:

BOARD:

Ms. Julie Simonton, *Vice Chair*
Mr. Tom Shigemoto (*entered at 9:41 a.m. - remote*)
Mr. Ka'aina Hull
Mr. Larry Dill
Mr. Troy Tanigawa

EXCUSED:

Mr. Kurt Akamine, *Chair*

Quorum was achieved with 4 members present at Roll Call. (Board member Shigemoto entered the meeting at 9:41 a.m.) In the absence of the Chair, Vice-Chair Simonton presided over the meeting.

ANNOUNCEMENTS

Next Scheduled Meeting: Thursday, February 16, 2023

APPROVAL OF AGENDA

The agenda was approved with no objections.

APPROVAL OF MEETING MINUTES

1. Regular Board Meeting – December 15, 2022
2. Executive Session – December 15, 2022

The meeting minutes were approved with no objections.

PUBLIC TESTIMONY

1. Letter from Harold Matsunaga dated November 25, 2022 regarding his excessive water bill

Public testimony was received by Harold Matsunaga stating that the bill he received for October 2021 was in the amount of \$1,080.20. His average water bill is \$45 to \$50 per month. Two members of the Water Department checked his meter and claimed it was accurate and explained that it may be a problem with the transponder. Mr. Matsunaga noted that he had a problem with an excessive bill 5 to 10 years ago, which he ended up just paying after the Board advised him there was nothing they could do. Since then, whenever he is out of town he asks his neighbors to check his meter every 3 days, and if they see it continuously running to shut it off. During this billing period, his neighbor reported that the meter was not running. Additionally, his other neighbor reported no running water on the property. Mr. Matsunaga expressed that he cannot understand why he received such a large water bill. According to DOW, the readings indicate his water was running for 13 days, day and night. However, Mr. Matsunaga stated if that was the case, his yard would be flooded which it is not.

Vice-Chair Simonton thanked Mr. Matsunaga for this testimony. Manager Joe Tait stated that he has met with Mr. Matsunaga 3 or 4 times regarding this bill. The findings obtained by the Meter Technicians were that the meter's battery was failing, and the transponder was displaced. Manager Tait explained that there is no Board authority that allows DOW to modify his bill unless there is

an underground leak, and proof that the leak has been repaired. He stated that he is awaiting an opinion from Deputy County Attorney Krafft on whether that authority is inherent in his position. In response to Vice-Chair Simonton, Manager Tait explained that this high amount only occurred for this one month, and once the meter technician reset the transponder and replaced the battery, normal usage was being reported.

Vice-Chair Simonton stated that it seems the Department's position is that this is most likely a mechanical error to which Manager Tait explained that mechanically, the register at the top of the meter recorded the actual waterflow through the meter, but electronically there is an anomaly with the Badger transponder. Either way, even if he wanted to make an adjustment, he cannot make a determination until he receives an opinion from the Deputy County Attorney. Vice-Chair Simonton asked whether the Board could grant Manager Tait the authority to do so. Deputy County Attorney Laura Barzilai explained that Ms. Krafft is currently in the process of researching.

Board member Hull commented that we would more than likely have to draft a rule to grant that authority and added that as this came to the Board in the form of public testimony, it is not a formal appeal of the Water Manager's action. A formal appeal would be something the Board would have the authority to rule on. Manager Tait concurred and added that prior to the meeting, Ms. Krafft did investigate rule vs. inherent authority, but he is awaiting her opinion.

Vice-Chair Simonton explained to Mr. Matsunaga that the Department is working on trying to resolve this issue, but the rules are structured in such a way that it is not easy for the Board or Manager to simply adjust the water bill. The Department is awaiting a legal opinion to determine whether the Manager has the authority to do so and will continue to work with Mr. Matsunaga to resolve the matter.

Board member Shigemoto asked whether the bill Mr. Matsunaga received had been paid to which Manager Tait stated yes, he did so through direct deduction. Mr. Shigemoto asked if this is the first time this has ever happened to which Manager Tait stated it has happened in the past which was a result of a mechanical problem.

Public Testimony was received from Roslyn Cummings re: New Business Item Nos. 1. and 2. Ms. Cummings stated she was speaking against BBCP, a foreign corporate entity doing business and seeking contracts with the Department of Water, County of Kauai for the use of water. She stated that the County Proclamation she read talks about stewardship and our resources. She stated her testimony is in regard to taking remedial action against belligerent actions, committing of fraud, perjury, genocide, breach of trust, violations of the oath of office, treason, extortion, falsification of documentation and racketeering. She stated that these damages were determined by government itself, for the violation of all government is inherent in the people; not in the interest of BBCP, who will not have stewardship abilities because they are corporate. She questioned who will utilize "X" amount of water, and what percentage of that water will be returned to its natural course and feed back what is feeding makai and mauka. She commanded everyone who took oath to uphold their oath of office and respect U.S. Constitution, Article 6, Section 2. She cautioned that she is watching what is being stated, noting that if she is not mistaken, only bar members can make legal determination though she hears many people making legal determinations for which she will file a complaint. She questioned where the interest of the County of Kauai is and where their superiority comes from that they can apply it to the lands. She closed by stating that as a

corporate entity, a fictitious character, DOW has no rights. The water utilized by development is at a high percentage amount of about 80 percent, which does not get returned.

Public Testimony was received from Ashley Gutierrez.

Ms. Gutierrez stated that foreigners with no cultural ties have a right to make decisions on how our water should be divided; the Kanaka should have the right and the use of the water and should not be going to public entities for use of commercial doings. The water should go back to the source after it's been used, but not waste water. When water goes to the lo'i, 90% goes back to the rivers, but when water is used by private entities, it is waste that goes to the oceans and kills our reefs.

NEW BUSINESS

1. Manager's Report No. 23-15 Discussion and Possible Action to approve a Grant of Easement from BBCP Kukui'ula Development, LLC and BBCP Kauai Mauka Lands LLC for Parcel I; Subdivision No. S-2021-1; TMK: (4) 2-6-023:038, 2-6-023:039, 2-6-003:001 (POR), and 2-6-003:031 (POR) Koloa, Kaua'i, Hawai'i
2. Manager's Report No. 23-16 Discussion and Possible Action to approve the Conveyance of Water Facility from BBCP Kukui'ula Development, LLC and BBCP Kauai Mauka Lands LLC for Parcel I; Subdivision No. S-2021-1; TMK: (4) 2-6-003:001 (POR), 2-6-003:031 (POR), 2-6-023:038, 2-6-023:039 Koloa, Kaua'i, Hawai'i

Board member Hull moved to approve Manager's Report No. 23-15 and 23-16, seconded by Mr. Tanigawa; motion carried with 5 Ayes.

1. Manager's Report No. 23-17 Discussion and Possible Action for Board Approval on the Eleventh Amendment to Contract No. 427, Job No. 02-14, WP2020 WK-08 Kapa'a Homesteads 0.5 Million Gallon (MG) Storage Tank and Kapa'a Homesteads 325' Tanks – Two 0.5 MG Storage Tanks and Connecting Pipelines, Kapa'a, with Bowers + Kubota Consulting for additional funds in the amount of \$182,400 and a time extension of 900 calendar days

Acting Engineering Division Head Jason Kagimoto provided a summary of the Manager's Report submitted.

Board member Hull asked how long this project has been ongoing to which Acting Deputy Manager Michael Hinazumi replied this project was initiated back in January 2004. At the time the project was to design 2 tanks, and although the project timeline was aggressive, there were a lot of issues with drainage on-site. Mr. Hinazumi stated he was the project manager that started this project, but he was not sure what transpired after he left in 2007, though there were additional challenges, environmental concerns, and public responses that needed to be taken care of.

Board member Shigemoto asked where the money is coming from and what is the funding for the project being that it is taking so long. Mr. Hinazumi stated the funding for the design portion of the project is coming from the Water Utility Fund. Upon completion the project will move to construction for which the Department is receiving assistance from State Legislature with a 50% match of \$7.25 million. Mr. Shigemoto asked to clarify that this project has been funded through the Capital Improvements budget to which Mr. Hinazumi replied yes. Mr. Shigemoto

commented that 900 days seems quite long and asked what that would entail. Mr. Kagimoto explained the 900 days would take them through construction. They are looking to bid this project out in the next month, then will be entering the construction phase which is scheduled to last approximately 2 years. Board member Shigemoto stated his recollection at a previous meeting was that an additional \$250,000 was being requested to fund this project and that some of the revisions that needed to be made were due to the owner rescinding his approval prior to the creation of the detention ponds on his property. He asked if that is what the funds are required for. Mr. Hinazumi explained the approximately \$250,000 previously approved was for the construction contract to purchase materials and provide labor and equipment to relocate the detention basin from private property to the Department's tank site. Mr. Shigemoto asked why this project would require an additional 900 days to which Mr. Hinazumi explained that this would be for the design consultant assistance to redo the EA, design and permitting to get the package ready for bid. Approximately 730 of those days are tied to construction project to provide design support during physical construction related to the two 0.5-million-gallon tanks.

Mr. Shigemoto commented that 18 years seems quite a long time for a project to occur, and while he does not know what the problems were but hopes this does not continue to happen moving forward as it takes a lot of time, effort, and additional funding.

Board member Hull moved to approve Manager's Report No. 23-17, seconded by Mr. Tanigawa; with no objections, motion carried with 5 Ayes.

3. Manager's Report No. 23-18 Discussion and Possible Action on the Sixth Amendment to Contract No. 533 Job No. 09-01 WP2020 #K-01, K-12, Phase II – Kalāheo 1111' and 1222' Water System Improvements, Kalāheo, Kaua'i, Hawai'i with Bowers + Kubota Consulting, Inc. for additional design funding in the amount of \$82,700.00 and a time extension of 900 calendar days.

Mr. Kagimoto provided a summary of the Manager's Report submitted. Mr. Shigemoto asked how long this project has been in the works and what are the particular issues with the delays. Mr. Hinazumi stated that the contract was initiated in April of 2011 and the design has been quite challenging for the area. Public comment and EA's were prepared and long-lead items such as easements and land acquisitions from DLNR have been secured. This project went out to construction last year with \$14 million of State aid and is also partially funded by Department of Health Safe Drinking Water Branch State Revolving Fund. Mr. Shigemoto asked to clarify that this project would replace an existing tank and the goal is to improve the water system in and around Kalaheo to which Mr. Hinazumi confirmed. Mr. Shigemoto stated similar concerns that the 900 days is a long period of time before the project comes to fruition. Board member Hull agreed, adding that this may be a contract management concern considering the delays have been over 10 years, 20 years for some. As these reports continue to come to the Board, it behooves them as Board members to start to dig down. He understands that some lead has to be given considering the changes being made to right the ship, but over the next year or two he would like the Department to make a more concerted effort to get contract management under control.

Mr. Hinazumi stated for clarification that though it states 900 days, it's not going to delay the project for that amount of time. They anticipate refreshing the NPDES permits within 3 to 4 months, and the balance of the time would be to provide construction support services by the design team should the contractors have any questions or concerns. In response to Mr. Tait, Mr. Hinazumi stated he left the Department in 2007. Manager Tait then stated when Mr. Hinazumi

returned in 2016, he inherited many of the same projects that were there when he left; there was a 10-year gap of stagnant progress. Civil Engineering VI Dustin Moises also previously left and has since returned, and Jason Kagimoto was not here at the time. Mr. Tait stated that there is a new Engineering team as well as a different culture and he is a part of all of their discussion, project estimations, and budget requests. He assured the Board that they will not see the past repeated while he is the Manager. Mr. Shigemoto expressed his appreciation but noted that 18 years is a lengthy period. Though he understands the staffing challenges as well as the amount of time it takes when reapplying for NPDES and EA's, he would like to see some of the issues with getting easements, or approvals from landowners could be resolved before contracts are actually awarded to prevent lapses for these long-lead items. He appreciates the new staff will be diligent in preventing these issues in the future and has faith that they will do a much better job moving forward.

Vice-Chair Simonton asked a question that was posed to her from the public to confirm whether this project is replacing facility components that are there and improving existing water systems, adding capacity to the system, or a combination of both. Mr. Hinazumi stated for the most part it is replacing it, but there will be an upgrade to current standards.

Board member Dill asked to confirm whether substantial completion of construction is anticipated within the 900 days of this contract amendment. Mr. Hinazumi stated it is anticipated to be completed within the 900 days but noted that supply chain issues have delayed their construction contractors from starting which is out of their control.

Board member Hull moved to approve Manager's Report No. 23-18, seconded by Mr. Shigemoto; with no objections, motion carried with 5 Ayes.

Manager's Report No. 23-19 Discussion and Possible Action on approval of additional funds for the purchase of three (3) Emergency Generators per Solicitation GS-2023-02

Chief of Operations Val Reyna provided a summary of the Manager's Report submitted. Vice-Chair Simonton asked how many bidders they had to which Mr. Reyna stated they received one response. In response to Board member Dill, Mr. Reyna stated these trailer-mounted generators are stored at the sites: Puhi well site, Kilohana site, and the smaller one at the base yard to replace the Microlab generator. Mr. Dill asked if they are equipped with automatic transfer switches to which Mr. Reyna replied no. Mr. Dill then asked how many sites do not have permanent, fixed emergency standby generators with automatic transfer switches. Mr. Reyna stated they do not install automatic transfer switches at this time. Mr. Dill would like to get a response from the Department at some point as to whether they think there is a benefit to installing automatic transfer switches at locations where possible.

Board member Shigemoto moved to approve Manager's Report No. 23-19, seconded by Mr. Tanigawa; with no objections, motion carried with 5 Ayes.

Manager's Report No. 23-20 Discussion and Possible Action on approval of additional funds for the purchase of one (1) 2-Wheel Drive 18,000 LB. GVWR Truck Cab and Chassis with Service Body, Underhood Air Compressor and Accessories per Solicitation GS-2023-03

Chief of Operations Val Reyna provided a summary of the Manager's Report submitted. Mr. Shigemoto asked how many of these vehicles does the Department have to which Mr. Reyna

stated they have 5 of these types of vehicles, but only one needs to be replaced at this time. In response to Vice-Chair Simonton, Mr. Reyna stated they only received one bid for this solicitation. Ms. Simonton stated that though she understands the County's procurement process is different from private industry, as someone who purchases these types of vehicles for her company, she has some heartburn with the price. Mr. Shigemoto asked what the Department's policy is on getting bids and how long they wait before they receive two or three. Mr. Reyna stated they post a solicitation with a deadline, and though they received inquiries from various vendors, come the deadline they had received only one bid. The bid notice is posted on a public purchase website. Mr. Reyna added that their specifications may include things that other companies may not have. Mr. Hull added that there are also certain vendors that they can use, noting there are few things that are more frustrating than government procurement. Ms. Simonton stated she is in no way faulting the Department for this but expressed frustration with the system and rules that increase these costs. She asked the Department to try and make sure they the most competitive and cost-effective bids while still complying with all procurement laws. She added that while there is an obligation to comply with the law, there is also an obligation to be fiscally responsible. Mr. Hull pointed out that half of the vendors that the private sector can utilize, and who offer more competitive rates refuse to be part of our procurement list because of the State requirements.

Board member Tanigawa moved to approve Manager's Report No. 23-20, seconded by Mr. Hull; with no objections, motion carried with 5 Ayes.

STAFF REPORTS

1. Fiscal - Statement of Revenues and Expenditures
 - a. November and December Monthly Summary Budget
 - b. Accounts Receivable Aging Summary

Assistant Waterworks Controller Marcelino Soliz noted that the December dashboard had not been provided. Vice-Chair Simonton requested that the font in the dashboard be adjusted to change the formatting of the font and table colors to make it easier to read. Mr. Soliz provided an overview of the November and December budget summary reports.

2. Public Relations Activities – updates on Public Notices & Announcements, Community Outreach & Education and Upcoming Events

Information and Education Specialist Jonell Kaohelaulii provided a summary of the Public Relations report submitted. She highlighted the recent in-kind donation received from Ferguson Facilities Supply who donated a Pro Flow toilet model. She thanked their West Region Manager, Ron Lumen, and the Kauai office branch Manager Sean Andrade for this donation to DOW's education program. This toilet model has been placed in the front lobby area in honor of National Sanitation Week, and has piqued the interest of customers.

3. Operational Activities – Monthly service dashboard & highlights, Monthly comparison of water produced, customer meter read, and water loss

Chief of Operations Val Reyna provided a summary of the Operations monthly division dashboard, highlighting their current vacancies as well as an overall staffing profile. He noted that because of licenses and special skill requirements, it may take years to find good, quality people. Mr.

Reyna stated that as of December 31, they are about 8% over-budget on overtime, but most of it is due to emergency response.

4. Manager and Chief Engineer – update on monthly activities, personnel matters, and required communications to the Board

Manager Joe Tait provided a summary of the Manager’s Update submitted. He noted that Assistant Waterworks Controller Marcelino Soliz will be resigning at the end of the month, and his supervisor Marites Yano will be retiring at the end of February. Though the Department will be undergoing a turnover in leadership in the Fiscal division, the Fiscal staff under them have continued to keep things running consistently so there are no anticipated disruptions. He added that the Department as a whole is about 31% vacant, which is one of the higher numbers he has seen in a public agency. The Department is working with County DHR to try and fill those vacancies as quickly as possible.

QUARTERLY REPORTS

1. Build America Bond – Statement of Expenditures
2. Claims Settled by Department of Water
3. Engineering – updates on quarterly accomplishments, Water Plan 2020 Construction Project status, and IDIQ service contracts
4. Information Technology

Due to time constraints, the Board agreed to forego the formal presentations of the Quarterly Reports.

TOPICS FOR NEXT BOARD OF WATER SUPPLY MEETING: *(February)*

1. Department of Water’s (DOW) Draft Audit Report by N&K CPAs, Inc. for Fiscal Years 2022-2021
2. Update regarding DOW’s Water System Investment Plan

TOPICS FOR FUTURE BOARD OF WATER SUPPLY MEETING

1. Report from Manager and Chief Engineer – Manager’s DOW Performance Audit
2. Updates on various DOW Programs identified in December, 2021-22

EXECUTIVE SESSION:

Pursuant to Hawai‘i Revised Statutes (HRS) §92-7(a), the Board may, when deemed necessary, hold an executive session on any agenda item without written public notice if the Executive Session was not anticipated in advance. Any such executive session shall be held pursuant to HRS §92-4 and shall be limited to those items described in HRS §92-5(a).

Pursuant to Hawai‘i Revised Statutes § 92-4 and § 92-5(a)(4), the purpose of this Executive Session is for the Board to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities as it relates to:

1. Goodfellow Bros.’ Request for Reimbursements, Job No. 15-07, Reorganize Water System: Kaunuaui‘i Highway 16-Inch Main and Emergency Pump Connection, Hanapēpē Road 6-Inch Main Replacement, Job No. 15-07, Water Plan Project No. HE-01, HE-10, Hanapēpē, Kaua‘i, Hawai‘i (Civil No. 5CCV-21-000098)

The Board invited Manager Tait, Deputy Manager Michael Hinazumi, Deputy County Attorney Hugo Cabrera and Deputy County Attorney Chris Donahoe into Executive Session as Resources

The Board entered into Executive Session at 11:01 a.m.

The Board resumed in open session at 11:46 a.m.

Board member Tanigawa moved to ratify actions taken in Executive Session, seconded by Mr. Dill; with no objections, motion carried with 5 Ayes.

ADJOURNMENT

The meeting was adjourned at 11:46 a.m.

Respectfully submitted,

Cherisse Zaima
Commission Support Clerk

Approved,

Tom Shigemoto
Secretary

DRAFT

A horizontal splash of clear blue water with bubbles and a small crown-like peak on the right side, set against a white background.

CORRESPONDENCE

September 6, 2022

Board of Water Supply
Department of Water, County of Kauai
4398 Pua Loke Street
Lihue, Hawaii 96766

We are engaged to audit the financial statements of the Department of Water (Department), a component unit of the County of Kauai (Kauai) which comprise the statement of net position as of June 30, 2022, the related statements of revenues, expenses, and changes in net position, and cash flows for the fiscal year then ended, and the related notes to the financial statements. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss this information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our letter dated August 31, 2022, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of the Department. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to Management's Discussion and Analysis and the schedules of proportionate share of the net pension liability, pension contributions, proportionate share of the net OPEB liability, and OPEB contributions, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

Members of the Board of Water Supply
Page 2

We have been engaged to report on the supplementary schedules of utility plant-in-service and selective account classifications, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of the Audit, Significant Risks, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We have identified the following significant risks of material misstatement as part of our auditing planning:

1. The adoption of GASB Statement No. 87, *Leases*: Effective for the Department on July 1, 2021, the implementation of a new accounting standard may potentially have a material effect on the financial statements.
2. Improper revenue recognition: When identifying and assessing the risk of material misstatement due to fraud, there is a presumption that risks of fraud exist in revenue recognition.
3. Management override of controls.

We began our audit in September 2022 and expect to issue our report by November 15, 2022. Lawrence M. T. Chew is the engagement principal and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

Members of the Board of Water Supply
Page 3

This information is intended solely for the use of the Board of Water Supply and management of the Department, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

N + K CPAs, INC.

January 30, 2023

Board of Water Supply
Department of Water, County of Kauai
4398 Pua Loke Street
Lihue, Hawaii 96766

We have audited the financial statements of the Department of Water (“the Department”), a component unit of the County of Kauai, as of and for the fiscal year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 6, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Department are described in Note B to the financial statements. The Department changed accounting policies related to leases by adopting Governmental Accounting Standards Board Statement No. 87, *Leases*, (GASBS No. 87) in 2022, however, management determined that the adoption did not have a material effect on the Department’s financial statements. No other new accounting policies were adopted and the application of existing policies was not changed during 2022. We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Department’s financial statements were:

1. Valuation allowance for receivables
2. Depreciation of capital assets
3. Net pension liability
4. Postemployment benefits other than pensions (OPEB) liability
5. Accrued workers’ compensation liability
6. Claims and judgments

Members of the Board of Water Supply
Page 2

Management's estimate of the valuation allowances for receivables is based on historical collection experience and the length of time individual receivables are past due. We evaluated the key factors and assumptions used for the valuation allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation recorded on capital assets is based in part on the estimated useful lives of those capital assets. We evaluated the key factors and assumptions used to estimate depreciation of the Department's capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The collective net pension liability, deferred inflows of resources, deferred outflows of resources, and pension expense of the cost-sharing multiple employer defined pension plan administered by the State of Hawaii's Employee Retirement System was determined by an actuarial valuation. The Department's proportionate share of the collective net pension liability, deferred inflows of resources, deferred outflow of resources, and pension expense was based on the Department's contributions to the pension plan relative to the contributions of all participating employers during the measurement period. We evaluated the key factors and assumptions used to estimate the Department's proportionate share of the collective net pension liability, deferred inflows of resources, deferred outflow of resources in determining that it is reasonable in relation to the financial statements taken as a whole.

The net OPEB liability was measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service, net of the OPEB plan's fiduciary net position. We evaluated the key factors and assumptions used to estimate the net OPEB liability and related deferred inflows of resources, deferred outflows of resources, and OPEB expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The accrued workers' compensation liability was determined using an actuarial analysis performed by a third-party specialist. We evaluated the key factors and assumptions used to estimate the accrued workers' compensation liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The estimated liability for claims and judgments is reported if 1) information available indicates that it is probable that a liability has been incurred at the date of the financial statements and, 2) the amount of loss can be reasonably estimated. We evaluated the key factors and assumptions used to estimate the liability for claims and judgments in determining that it is reasonable in relation to the financial statements taken as a whole.

Members of the Board of Water Supply
Page 3

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosure of the net pension and OPEB liability and related expense of the Department in Notes I and J to the financial statements. The net pension and OPEB liability were both determined by an actuarial valuation that required the use of several significant actuarial assumptions, which are also described in Notes I and J.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The timing of the completion of our audit was adversely impacted by delays in receiving requested schedules and information and additional auditing procedures related to accounting issues that were not initially analyzed by management. Our fieldwork began on approximately September 6, 2022. We were provided with the reconciliation of cash and investments managed by the County on approximately October 11, 2022 and November 7, 2022, respectively. An analysis of the impact of the implementation of GASBS No. 87 was not performed and other potentially significant liabilities were not initially analyzed prior to the beginning of our audit. We encountered no other significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management: Unrecorded liabilities as of June 30, 2022 of approximately \$1,800,000.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 30, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial

Members of the Board of Water Supply
Page 4

statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and the schedules of proportionate share of the net pension liability, contributions (pension), changes in the net OPEB liability and related ratios, and contributions (OPEB), which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedules of utility plant-in-service and selective account classifications, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board of Water Supply and management of the Department and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

N + K CPAs, INC.

**Department of Water, County of Kauai
Summary of Uncorrected Misstatements
June 30, 2022**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Proposed Journal Entries JE # 201			
To reclassify the current portion of accrued compensated absences as of June 30, 2022.			
10-00-00-236-000	WU - Long Term Accrued Compensated Absences	211,936.00	
10-00-00-216-000	WU-Accrued Compensated Absences		154,015.00
10-00-00-218-000	WU-Accrued Compensatory Time		57,921.00
Total		211,936.00	211,936.00
Proposed Journal Entries JE # 202			
To pass on adjusting customer overpayments from AR to a liability account.			
10-00-00-120-000	WU-Accounts Receivable	44,225.00	
10-00-00-225-020	WU-Other Current Liabilities		44,225.00
Total		44,225.00	44,225.00
Proposed Journal Entries JE # 203			
Per client request, to adjust accrued interest receivable and revenue to its proper balance as of 6/30/22.			
10-00-00-461-000	WU-Investment Income	23,185.00	
10-00-00-128-000	WU-Accrued Interest Receivable		23,185.00
Total		23,185.00	23,185.00
Proposed Journal Entries JE # 204			
To implement GASB 87 - Leases.			
10-00-00-582-000	WU-Interest Expense	139.00	
10-00-90-581-000	WU-Depreciation-Amortization	28,556.00	
XX-100	Right of use lease asset	36,102.00	
10-02-10-545-000	WU-IT-Adm-Rentals and Leases-		32,839.00
XX-200	Lease obligation		31,958.00
Total		64,797.00	64,797.00

A horizontal splash of clear blue water with bubbles and ripples, set against a white background. The water splash is centered and spans most of the width of the page.

NEW

BUSINESS

DEPARTMENT OF WATER

County of Kaua'i

"Water has no Substitute – Conserve It!"

MANAGER'S REPORT No. 23-21

February 16, 2023

Re: Discussion and Receipt of the Department of Water's (DOW) Draft Audit Report by N&K CPAs, Inc. for Fiscal Years 2022/2021.

RECOMMENDATION:

It is recommended that the Board receive and accept the Department of Water's (DOW's) audited Financial Statements (FS) as of June 30, 2022, and 2021 together with the N&K CPAs, Inc. Auditor's Report.

BACKGROUND:

The DOW's independent auditor, N&K CPAs, Inc. completed the audit of the DOW's financial accounts and information technology controls for the Fiscal Year (FY) ending June 30, 2022. The auditors representing the firm will present the audit report and answer any questions the board may have. A copy of the audited Financial Statements is hereby submitted for your review and action as necessary.

It is recommended that the Board receive and accept the audited Financial Statements for the Fiscal Years (FY) ending June 30, 2022, and 2021 as presented. Unless there are changes to the financial statements as audited, this will be the final copy of the Financial Audit Report which will be made available for distribution to other governmental agencies and/or other interested parties as necessary.

A copy of this report will be furnished to the Director of Finance, County of Kauai for integration into the County's Comprehensive Annual Financial Report (CAFR).

OPTIONS:

Option 1: It is recommended that the Board receive and accept the audited financial statements as of June 30, 2022, and 2021 as presented.

Pros: The DOW can officially transmit a copy of the audited Financial Statements to the County of Kaua'i Finance Director immediately thereafter.

Cons: None known.

Option 2: Do not receive and accept the DOW's Financial Statements as of June 30, 2022, and 2021 as presented and do not transmit the audited Financial Statements to the County of Kaua'i Finance Director at this time.

Pros: The Board may need additional time to discuss the report and may have questions that need further research and/or actions.

Con: Deferral will affect the County of Kaua'i's deadline in meeting their CAFR submission.

MY

Attachments: Draft Audit Reports for Fiscal Years 2022/2021



Department of Water

County of Kauaʻi

Fiscal Year Ended June 30, 2022

Scope of Services

Our audit was performed 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*.

To express an opinion on the fair presentation of the Department of Water Supply's financial statements as of and for the fiscal year ended June 30, 2022.

Summary of Auditor's Results

Unmodified opinion issued on whether the financial statements audited were presented fairly, in all material respects, as of June 30, 2022 and for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Internal control deficiencies identified:

- One material weakness in internal control over financial reporting was reported.
- Two significant deficiencies in internal control over financial reporting were reported.

Summary of Auditor's Results

Internal control findings reported:

- *2022-001* Improve Internal Communication (material weakness)
- *2022-002* IT General Control Deficiencies
- *2022-003* Improve Procedures to Identify and Account for Contracts

Required Communication with Board of Water Supply at Conclusion of the Audit

- Auditor's views about the Department of Water's significant accounting policies, sensitive accounting estimates and financial statement disclosures.
- The timing of the completion of our audit was adversely impacted by delays in receiving requested schedules and information and additional time spent on accounting issues that were not initially analyzed by management prior to the beginning of our audit. No other significant difficulties were encountered during the audit.
- No disagreements with management about financial accounting, reporting, or auditing matters arose during the course of the audit.

Questions?

**Department of Water
County of Kauai**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Year Ended June 30, 2022

**DEPARTMENT OF WATER
COUNTY OF KAUAI**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	4 - 7
MANAGEMENT'S DISCUSSION AND ANALYSIS	9 - 15
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	17 - 18
Statement of Revenues, Expenses, and Changes in Net Position	19
Statement of Cash Flows	20 - 21
Notes to Financial Statements	22 - 48
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the Net Pension Liability	50
Schedule of Contributions (Pension)	51
Notes to Required Supplementary Information Required by GASB Statement No. 68	52
Schedule of Changes in the Net OPEB Liability and Related Ratios	53
Schedule of Contributions (OPEB)	54
Notes to Required Supplementary Information Required by GASB Statement No. 75	55

**DEPARTMENT OF WATER
COUNTY OF KAUAI**

TABLE OF CONTENTS

	<u>Page</u>
SUPPLEMENTARY INFORMATION	
Schedule I – Supplemental Schedule of Utility Plant-in-Service	57
Schedule II – Supplemental Schedule of Selective Account Classifications	58
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in Accordance with <i>Government Auditing Standards</i>	60 - 61
SCHEDULE OF FINDINGS	63 - 66
CORRECTIVE ACTION PLAN	68 - 69



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HONOLULU, HAWAII 96813
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INDEPENDENT AUDITOR'S REPORT

To the Board of Water Supply
Department of Water, County of Kauai

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Department of Water, a component unit of the County of Kauai, as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department of Water, County of Kauai's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Department of Water, County of Kauai, as of June 30, 2022, and the changes in financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department of Water, County of Kauai 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.

Responsibilities of Management for the Financial Statements

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

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

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 of Water, County of Kauai's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Water, County of Kauai'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.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department of Water, County of Kauai'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 9 to 15 and the schedules of proportionate share of the net pension liability, pension contributions, proportionate share of the net OPEB liability, and OPEB contributions on pages 50 to 55 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 GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department of Water, County of Kauai's basic financial statements. The accompanying Supplemental Schedules I and II, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Supplemental Schedules I and II are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2023 on our consideration of the Department of Water, County of Kauai'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 of Water, County of Kauai'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 of Water, County of Kauai's internal control over financial reporting and compliance.

N + K CPAs, INC.

Honolulu, Hawaii
January 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2022**

The Department of Water, County of Kauai (the "Department") is a semiautonomous agency consisting of a Board of Water Supply, Manager and Chief Engineer, and support staff. The Board of Water Supply is responsible for the management, control and operation of the County of Kauai's water system. 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. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- Total assets and deferred outflows at fiscal year-end ("FY") June 30, 2022, were \$315.8 million ("M") and exceeded liabilities and deferred inflows by \$222.5M.
- Total net position at June 30, 2022 has a positive net change of \$1.9M. FY 2022's loss before contributions of (\$848) thousand ("K") before capital contributions of \$2.7M resulted in an increase of \$1.9M in net position.
- Total cash and investments as of June 30, 2022, were \$61.6M, a decrease of \$35.6K from June 30, 2021.
- The Department's liquidity ratio (current assets divided by current liabilities) was 1.4 on June 30, 2022 and 1.8 on June 30, 2021.
- The Department finances part of its capital improvement and rehabilitation programs through Build America Bonds ("BAB") and State Revolving Fund ("SRF") loans. There was no new debt for FY 2022. The debt-to-equity ratio was 26% as of June 30, 2022 and 28% as of June 30, 2021.
- Operating revenues for FY 2022 were \$30.9M, an increase of \$3.2M from FY 2021. Water rates were the same in FY 2022 as FY 2021 but the total water consumption increased by 536 million gallons ("MG") in FY 2022. This increase was due to the lifting of the COVID-19 pandemic restrictions as most business operators returned to their normal operations and thus impacted positively the Department of Water's sales revenues.
- Operating expenses for FY 2022 totaled \$27.2M, a decrease of \$5M as compared to the prior year. Details of this decrease are further explain on pages 13 to 14.
- Long-term debt at June 30, 2022 was \$56.8M, a decrease of \$5.2M from June 30, 2021. The decrease was from principal payments made for long-term debt.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2022**

Overview of the Financial Statements

The financial statements are presented using the economic resources measurement focus and accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The financial statements are designed to provide readers with a broad overview of the Department's finances in a manner like a private-sector business.

The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, a statement of cash flows, and notes to basic financial statements. The statement of net position presents all of the Department's assets and deferred outflows of resources ("deferred outflows") and liabilities, deferred inflows of resources ("deferred inflows") and net position, and provides information on the nature of its resources and obligations. The statement of revenues, expenses and changes in net position presents the results of operations and the resulting change in net position for the year. The statement of cash flows presents changes in cash resulting from operating activities, capital and related financing activities, and investing activities.

The notes to the basic financial statements provide required disclosures and additional information that is essential to a full understanding of the data provided in the basic financial statements. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information on utility plant-in-service and selective account classifications.

In addition to the basic financial statements and accompanying notes, this report presents a section of required supplementary information other than management's discussion and analysis, which includes a schedule of proportionate share of the net pension liability, schedule of contributions (pension), schedule of changes in the net OPEB liability and related ratios, and schedule of contributions (OPEB).

**Department of Water
 County of Kauai
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Fiscal Year Ended June 30, 2022**

Financial Analysis

**Statements of Net Position - Condensed
 June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>	<u>CY - PY % Change</u>
Assets			
Current and other assets	\$ 17,500,410	\$ 17,471,791	0.2%
Net capital assets	243,594,530	245,880,657	-0.9%
Other noncurrent assets	49,394,594	49,260,681	0.3%
Deferred outflows of resources	<u>5,358,040</u>	<u>7,606,119</u>	-29.6%
Total assets and deferred outflows	<u>\$ 315,847,574</u>	<u>\$ 320,219,248</u>	-1.4%
Liabilities			
Current liabilities	\$ 12,283,464	\$ 9,748,687	26.0%
Long-term debt, net	51,864,495	56,884,592	-8.8%
Other long-term liabilities	19,156,567	29,573,644	-35.2%
Deferred inflows of resources	<u>10,089,749</u>	<u>3,438,339</u>	193.4%
Total liabilities and deferred inflows	<u>93,394,275</u>	<u>99,645,262</u>	-6.3%
Net position			
Net investment in capital assets	192,553,137	193,552,477	-0.5%
Restricted	2,622,889	3,574,478	-26.6%
Unrestricted	<u>27,277,273</u>	<u>23,447,031</u>	16.3%
Total net position	<u>222,453,299</u>	<u>220,573,986</u>	0.9%
Total liabilities, deferred inflows, and net position	<u>\$ 315,847,574</u>	<u>\$ 320,219,248</u>	-1.4%

**Department of Water
 County of Kauai
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Fiscal Year Ended June 30, 2022**

**Statements of Revenues, Expenses and Changes in Net Position - Condensed
 Fiscal Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>	CY - PY % Change
Operating revenues	\$ 30,879,580	\$ 27,725,531	11.4%
Operating expenses			
Administration and general	8,102,352	9,549,855	-15.2%
Depreciation and amortization	7,020,814	7,109,741	-1.3%
Transmission and distribution	4,531,358	5,341,771	-15.2%
Power and pumping	3,197,442	2,903,552	10.1%
Source of supply	2,655,934	5,029,757	-47.2%
Customers' accounting and collection	957,472	1,257,407	-23.9%
Purification	<u>795,211</u>	<u>1,063,320</u>	-25.2%
Total operating expenses	<u>27,260,583</u>	<u>32,255,403</u>	-15.5%
Operating income (loss)	3,618,997	(4,529,872)	-179.9%
Nonoperating revenues (expenses)	(4,467,145)	(2,775,492)	60.9%
Capital contributions	<u>2,727,461</u>	<u>4,000,213</u>	-31.8%
Change in net position	<u>1,879,313</u>	<u>(3,305,151)</u>	-156.9%
Net position			
Beginning of year	<u>220,573,986</u>	<u>223,879,137</u>	-1.5%
End of year	\$ <u>222,453,299</u>	\$ <u>220,573,986</u>	0.9%

The Department's financial condition remains positive at year-end. As described earlier, net position is the reported difference between assets and deferred outflows and liabilities and deferred inflows, which over time may serve as a useful indicator of the Department's overall financial position. Total assets and deferred outflows at year-end were \$315.8M, which exceeded liabilities and deferred inflows of \$93.3M by \$222.5M (net position).

Total cash and investments (including restricted funds) decreased by \$35.6K from June 30, 2022, as compared with June 30, 2021.

The Department's liquidity ratio (current assets divided by current liabilities) was 1.4 at June 30, 2022 and 1.8 at June 30, 2021.

The Department finances part of its capital improvement and rehabilitation program through BAB and SRF loans. The debt-to-equity ratio at June 30, 2022, 2021 and 2020 was 26% and 28%, respectively.

The debt service coverage for FY 2022 was 1.67. The Department's debt service coverage target is 1.5.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2022**

The change in net position is a result of the operating and non-operating activities of the Department. The change in net position of \$1.9M for FY 2022 was a result of the following:

- Income from operations for FY 2022 was \$3.6M. Combined with the non-operating expenses of \$4.5M, the loss before capital contributions was \$848.1K. The Department recorded total capital contributions of \$2.7M thus the change in net position resulted in an increase of \$1.9M.
- Total operating expenses decreased by \$5M or 15.5% lower from \$32.3M in FY 2021 to \$27.3M in FY 2022.
 - Administration expenses decreased by \$1.4M or 15.2%. This decrease from the previous fiscal year was primarily attributed to the following:
 - Pension expense decreased by \$893.1K or 72.0% which was the result of a decrease to the actuarially determined pension expense for FY 2022 provided by the GRS Consultants hired by the State of Hawaii.
 - OPEB expense decreased by \$230.9 or 61.4% which was the result of a decrease to the actuarially determined OPEB expense for FY 2022 provided by the GRS Consultants hired by the State of Hawaii.
 - Professional services decreased by \$728.5K or 38.5% due to results of the Department's FY-2020/21 Financial Audit, as well as the addition of a new IT Manager, management considered an overall assessment of the IT Section prior to expending significant professional services funds.
 - Depreciation and amortization decreased by \$88.9K or 1.3% as compared from the previous fiscal year.
 - Transmission and distribution ("TandD") expenses decreased by \$810.4K or 15.2%. This decrease from the previous fiscal year was primarily attributed to the following:
 - Pension expense decreased by \$802.9K or 67.9% which was the result of a decrease to the actuarially determined pension expense for FY 2022.
 - OPEB expense decreased by \$209.5 or 57.5% which was the result of a decrease to the actuarially determined OPEB expense for FY 2022.
 - Repairs & maintenance related to the water system went up by \$187.8K or 664%. This increase was due to some repairs and maintenance done on the Department's SCADA system in FY 2022.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2022**

- Power and pumping expenses increased by \$293.9K or 10.1%. This increase from the previous fiscal year was primarily attributed to the following:
 - Utility services expenses increased by \$404.3K or 17.1%. This increase was due to the rising cost of electricity and increased electricity usage associated with increased water consumption.
 - Pension expense decreased by \$83.3K or 72.1% which was the result of a decrease to the actuarially determined pension expense for FY 2022.
 - OPEB expense decreased by \$19.0K or 59.0% which was the result of a decrease to the actuarially determined OPEB expense for FY 2022.
- Source of supply expenses decreased by \$2.4M or 47.2%. This decrease from the previous fiscal year was primarily attributed to the following:
 - Bulk water purchases decreased by \$2.2M or 55% which was the result of a onetime payment in FY 2021 to fulfill the terms of an existing water purchase agreement.
- Customer accounting and collection expenses decreased by \$299.9K or 23.9%. This decrease from the previous fiscal year was primarily attributed to the following.
 - Pension expense decreased by \$208.5 or 72.4% which was the result of a decrease to the actuarially determined pension expense for FY 2022.
 - OPEB expense decreased by \$48.7K or 59.9% which was the result of a decrease to the actuarially determined OPEB expense for FY 2022.
- Purification expense decreased by \$268.1K or 25.2%. This decrease from the previous fiscal year was primarily attributed to the following:
 - Pension expense decreased by \$197.6K or 78.0% which was the result of a decrease to the actuarially determined pension expense for FY 2022.
 - OPEB expense decreased by \$47.8K or 65.8% which was the result of a decrease to the actuarially determined OPEB expense for FY 2022.
- Capital contributions, which are included in non-operating income, amounted to \$2.7M for FY 2022, a decrease of \$1.3M or 31.8% as compared to \$4M capital contributions in FY 2021.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2022**

Capital Assets and Debt Administration

Capital assets are made up of property, plant, and equipment. As of June 30, 2022, the Department had net capital assets of \$243.6M. The decrease of \$2.3M was due largely to current year depreciation expense of approximately \$7.0M offset by current year additions to capital assets. Utility plant-in-service additions in FY2022 amounted to \$14.4M. Major capital asset additions included:

Hanapepe - Eleele connecting pipeline	Utility Plant	\$	12.6M
Conveyance from private jobs	Utility Plant	\$	1.2M

Long-term debt obligations outstanding as of June 30, 2022 amounted to \$56.8M, which consisted of \$44.3M in bonds payable and \$12.5M in SRF loans. The Department made a total of \$5.2M in principal payments in FY 2022.

More detailed information about the Department's long-term debt is provided in Note F of the notes to the basic financial statements.

Current Known Facts, Decisions or Conditions

As of this date, management is not aware of any other known facts, decisions or conditions that are expected to have a significant effect on financial position or results of operations of the Department.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances as of June 30, 2022. Questions concerning any information provided in this report or requests for additional information should be addressed to the Manager and Chief Engineer, Department of Water, County of Kauai at 4398 Pua Loke Street, Lihue, Kauai, Hawaii 96766.

BASIC FINANCIAL STATEMENTS

**Department of Water
 County of Kauai
 STATEMENT OF NET POSITION
 June 30, 2022**

ASSETS

Current assets

Cash and cash equivalents	\$	5,596,325
Investments		6,997,558
Receivables		
Accounts, net of allowance for doubtful accounts of approximately \$205,000 in 2022		1,517,335
Unbilled accounts		1,433,159
Grants and subsidies		739,210
Accrued interest		161,209
Materials and supplies		1,001,937
Prepaid expenses		53,677
Total current assets		17,500,410

Restricted assets

Facility reserve charge funds		
Cash and cash equivalents		2,276,695
Accounts receivable and other		316,804
Bond funds		
Cash and cash equivalents		1,022,596
Investments		8,302,062
Accrued interest		37,241
Total restricted assets		11,955,398

Investments, noncurrent

37,439,196

Capital assets

Utility plant in service		363,666,206
Less accumulated depreciation		(129,355,454)
Total utility plant, net		234,310,752
Construction work in progress		9,283,778
Net capital assets		243,594,530
Total assets		310,489,534

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions		4,046,046
Deferred outflows of resources related to OPEB		1,311,994
Total deferred outflows of resources		5,358,040
Total assets and deferred outflows of resources	\$	315,847,574

See accompanying notes to financial statements.

**Department of Water
 County of Kauai
 STATEMENT OF NET POSITION (Continued)
 June 30, 2022**

LIABILITIES

Current liabilities	
Current portion of long-term debt	\$ 4,961,483
Accounts payable and accrued liabilities	3,526,820
Contracts payable, including retainages	2,482,403
Accrued vacation and compensatory pay	566,064
Customer deposits	<u>746,694</u>
Total current liabilities	<u>12,283,464</u>
Noncurrent liabilities	
Long-term debt, net of current portion and unamortized premiums	51,864,495
Net pension liability	13,195,469
Net OPEB liability	4,866,291
Accrued vacation and compensatory pay, net of current portion	<u>1,094,807</u>
Total noncurrent liabilities	<u>71,021,062</u>
Total liabilities	<u>83,304,526</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on refunding	96,549
Deferred inflows of resources related to pensions	7,210,546
Deferred inflows of resources related to OPEB	<u>2,782,654</u>
Total deferred inflows of resources	<u>10,089,749</u>
NET POSITION	
Net investment in capital assets	192,553,137
Restricted for capital activity	2,622,889
Unrestricted	<u>27,277,273</u>
Total net position	<u>222,453,299</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 315,847,574</u>

See accompanying notes to financial statements.

**Department of Water
 County of Kauai
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 Fiscal Year Ended June 30, 2022**

OPERATING REVENUES	
Water sales	\$ 28,472,952
Other water revenue	
Public fire protection service	2,215,302
Other	<u>191,326</u>
Total operating revenues	<u>30,879,580</u>
OPERATING EXPENSES	
Administration and general	8,102,352
Depreciation and amortization	7,020,814
Transmission and distribution	4,531,358
Power and pumping	3,197,442
Source of supply	2,655,934
Customers' accounting and collection	957,472
Purification	<u>795,211</u>
Total operating expenses	<u>27,260,583</u>
Operating income	<u>3,618,997</u>
NONOPERATING REVENUES (EXPENSES)	
Investment loss, net	(1,771,841)
Interest expense	<u>(2,695,304)</u>
Total nonoperating expenses, net	<u>(4,467,145)</u>
Loss before contributions	(848,148)
CAPITAL CONTRIBUTIONS	
Change in net position	<u>2,727,461</u>
NET POSITION	
Beginning of year	<u>220,573,986</u>
End of year	<u>\$ 222,453,299</u>

See accompanying notes to financial statements.

**Department of Water
 County of Kauai
 STATEMENT OF CASH FLOWS
 Fiscal Year Ended June 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 28,821,270
Payments to suppliers for goods and services	(8,565,792)
Payments to employees for services	<u>(10,731,023)</u>
Net cash provided by operating activities	<u>9,524,455</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(1,055,814)
Principal payment on long-term debt	(5,170,095)
Interest paid on long-term debt	(2,806,194)
Proceeds from capital contributions	<u>1,217,237</u>
Net cash used in capital and related financing activities	<u>(7,814,866)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(25,717,533)
Sales and maturities of investments	21,551,307
Interest on investments	<u>699,086</u>
Net cash used in investing activities	<u>(3,467,140)</u>
Net decrease in cash and cash equivalents	(1,757,551)

CASH AND CASH EQUIVALENTS

Beginning of year	<u>10,653,167</u>
End of year	<u>\$ 8,895,616</u>

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

Unrestricted	\$ 5,596,325
Restricted - Facility reserve charge funds	2,276,695
Restricted - Bond funds	<u>1,022,596</u>
	<u>\$ 8,895,616</u>

See accompanying notes to financial statements.

**Department of Water
 County of Kauai
 STATEMENT OF CASH FLOWS (Continued)
 Fiscal Year Ended June 30, 2022**

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

Operating income	\$	3,618,997
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization and loss on disposals		7,020,814
Decrease (increase) in assets and deferred outflows of resources:		
Accounts receivable, net		(72,534)
Unbilled accounts		167,667
Materials and supplies		4,162
Prepaid expenses and other		(7,508)
Deferred outflows of resources		2,248,079
Increase (decrease) in liabilities and deferred outflows of resources:		
Accounts payable and accrued liabilities		285,916
Accrued vacation and compensatory pay		4,297
Customer deposits		61,859
Net pension liability		(7,590,369)
Net OPEB liability		(2,860,441)
Deferred inflows of resources		6,643,516
Net cash provided by operating activities	\$	<u>9,524,455</u>

**DISCLOSURE OF NONCASH INVESTING, CAPITAL
 AND FINANCING ACTIVITIES**

Net decrease in fair value of investments	\$	2,444,249
Capital contributions - conveyances of capital assets	\$	1,193,653
Capital asset additions included in contracts and accounts payable at year end	\$	3,443,524
Amortization of bond premium	\$	58,614
Amortization of deferred loss on refunding	\$	7,894

See accompanying notes to financial statements.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE A - BACKGROUND

On May 10, 1960, by authority of Act 20, Session Laws of Hawaii 1960, the Board of Water Supply (the "Board") of the County of Kauai, Hawaii (the "County") was created. The County transferred to the Board the operation and management of the water transmission and distribution systems. Under Act 20, the Board has the power to make and alter rules and regulations relating to the management, control, operation, preservation, and protection of the waterworks. The rules and regulations adopted by the Board have the force and effect of law.

As of January 2, 1969, under a new charter for the County, the policy-making responsibility for the water system was retained by the Board. The Board, however, is specifically stated to be an executive department of the County government. To the extent that they were not in conflict with the provisions of the charter, laws governing the County water supply which were in existence at the time of the enactment of the charter continued in effect. The water system is now being operated as the Department of Water, County of Kauai (the "Department"), a self-supporting component unit (enterprise fund) of the County, which renders water services throughout the island.

The Department is responsible for establishing rates for services based upon current operating costs and expected future capital and operating revenue requirements. The rates determined by the Department are subject to approval by the Board.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) **Financial Statement Presentation** - The Department is a component unit of the County (the primary government). The accompanying financial statements present only the financial position and activities of the Department and do not include other organizations, activities, and functions of the County.
- (2) **Measurement Focus and Basis of Accounting** - The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
- (3) **Use of Estimates** - The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and 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 revenue recognized related to unbilled accounts, the net carrying amount of utility plant-in-service, accrued liability for workers' compensation claims and judgments, the Department's proportionate share of the net pension liability, and the net liability for postemployment benefits other than pensions. Actual results could differ from those estimates.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (4) **Cash and Cash Equivalents** - The Department's cash and cash equivalents includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
- (5) **Investments** - Investments are measured at fair value, except for non-negotiable certificates of deposit which are recorded at amortized cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in the fair value of investments are recognized in investment income (loss) in the accompanying statement of revenues, expenses, and changes in net position. The cost of securities sold is generally determined by the weighted average method.
- (6) **Materials and Supplies** - Materials and supplies are stated at average cost (which approximates the first-in, first-out method). The cost of materials and supplies are recorded as expenses when consumed rather than when purchased.
- (7) **Receivables** - 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 receivables. The Department determines the allowance based on past collection experience and the length of time individual receivables are past due. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.
- (8) **Restricted Assets** - Restricted assets are comprised of cash and cash equivalents, investments, and accrued interest maintained in accordance with bond resolutions and other agreements for the purpose of funding capital improvements of the water system. When both restricted and unrestricted assets are available for use, it is the Department's policy to use restricted assets first, then unrestricted assets as they are needed.
- (9) **Capital Assets** - Purchased or constructed capital assets in excess of \$5,000 are reported at cost. Contributed capital assets are reported at cost or estimated cost at the date of donation. Maintenance and repairs are charged to operations as incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Motor vehicles	7 to 10 years
Equipment and machinery	5 to 20 years
Buildings and improvements	40 to 50 years
Transmission and distribution equipment	18 to 63 years

- (10) **Deferred Outflows and Inflows of Resources** - Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that apply to a future period.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (11) **Net Position** - Net position comprises the various accumulated net earnings from operating and non-operating revenues, expenses, and capital contributions. Net position is classified in the following three components: net investment in capital assets, restricted for capital activity, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments at year-end are not included in the calculation of net investment in capital assets. Restricted for capital activity consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net position not included in the above categories.
- (12) **Operating Revenues and Expenses** - The Department distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Department's principal ongoing water operations. The principal operating revenues are from charges for water usage, while operating expenses include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.
- (13) **Revenue Recognition** - The Department recognizes revenue on the accrual method of accounting as services are rendered. Revenue recognized for services rendered but not billed is reflected as unbilled accounts receivable in the accompanying statement of net position.
- (14) **Capital Contributions** - Capital contributions include both cash received by the Department to fund capital improvements to the water supply system and contributions of capital assets from governmental agencies, developers and customers. The Department recognizes revenue on these nonexchange transactions when all applicable eligibility requirements are met.
- (15) **Facilities Reserve Charge** - Under the authority provided to the Board, the Department assesses a fee to commercial and residential developers based upon the number and size of water meters installed at respective projects. These fees are restricted to fund the capital improvements of the water supply system and recorded as capital contributions in the statement of revenues, expenses, and changes in net position.
- (16) **Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (the "ERS") and additions to/deductions from the ERS's fiduciary net position have been determined using the accrual basis of accounting, which is the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Plan investments are reported at fair value.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (17) **Postemployment Benefits Other Than Pensions (“OPEB”)** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (“EUTF”) and additions to/deductions from the EUTF’s fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- (18) **Risk Management** - The Department is exposed to various risks of loss from: (1) torts; (2) theft of, damage to, and destruction of assets; (3) employee injuries and illnesses, (4) natural disasters; (5) employee health, dental, and accident benefits; and (6) miscellaneous others. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims in excess of this commercial coverage were not significant in any of the three preceding years. The Department is self-insured for workers’ compensation claims and judgments.
- (19) **New Accounting Pronouncements** - In March 2020, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement addresses issues related to public-private and public-public partnerships and provides guidance for accounting and financial reporting for availability payment arrangements. This Statement is effective for reporting periods beginning after June 15, 2022. The Department has not yet determined the effect this Statement will have on its financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. This Statement is effective for fiscal years beginning after June 15, 2022. The Department has not yet determined the effect this Statement will have on its financial statements.

NOTE C - DEPOSITS

The Department’s deposits consist of cash on hand, cash held at financial institutions, and cash maintained by the County. As of June 30, 2022, the carrying value of the Department’s cash deposits amounted to approximately \$8,896,000 and the balances carried by the banks were approximately \$9,281,000. The County Director of Finance has arranged for all of the Department’s deposits at June 30, 2022 to be collateralized with securities held by the pledging financial institution in the County’s name.

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE D - INVESTMENTS

The Director of Finance of the County makes investments on behalf of the Department. The Department's investments are consistent with the investment guidelines contained in the Hawaii Revised Statutes ("HRS") and are generally invested in bonds or interest-bearing notes or obligations of the United States or agencies of the United States, money market mutual funds, certificates of deposits with federally insured financial institutions, and mutual funds.

The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

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

U.S. Treasury obligations and money market mutual funds: Valued using quoted prices in active markets for identical assets.

U.S. government agencies and municipal bonds: Valued using quoted prices for identical or similar assets in markets that are not active.

The following table presents the fair value of the Department's investments by level of input as of June 30, 2022:

	Assets at Fair Value at June 30, 2022			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 1,004,558	\$ 1,004,558	\$ --	\$ --
U. S. government agencies	39,402,882	--	39,402,882	--
Municipal bonds	1,217,929	--	1,217,929	--
Money market mutual funds	5,143,447	5,143,447	--	--
	<u>\$ 46,768,816</u>	<u>\$ 6,148,005</u>	<u>\$ 40,620,811</u>	<u>\$ --</u>
Investments measured at amortized cost				
Certificates of deposit	<u>5,970,000</u>			
Total investments	<u>\$ 52,738,816</u>			

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE D - INVESTMENTS (Continued)

The following table represents the Department's investments by maturity as of June 30, 2022:

	Investment Maturities (In Years)		
	Reported Value	Less Than 1	1 - 5
U. S. Treasury obligations	\$ 1,004,558	\$ 1,004,558	\$ --
U. S. government agencies	39,402,882	857,947	38,544,935
Municipal bonds	1,217,929	--	1,217,929
Certificates of deposit	5,970,000	993,000	4,977,000
	<u>\$ 47,595,369</u>	<u>\$ 2,855,505</u>	<u>\$ 44,739,864</u>
Money market mutual funds	<u>5,143,447</u>		
Total investments	<u>\$ 52,738,816</u>		

Interest Rate Risk - State law limits the Department's investment portfolio to maturities of less than five years. The Department does not have a formal investment policy that further limits investment maturities.

Credit Risk - State law limits investments to the top rating issued by nationally recognized statistical rating organizations or investments that have the full faith and credit of the United States pledged for the payment of principal and interest. The Department has no investment policy that would further limit its investment choices. As of June 30, 2022, with the exception of the Department's investment in certain fixed income and money market funds which were not rated, all of the Department's investments were rated AA or greater.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - The Department places no limits on the amount which may be invested in any one issuer. As of June 30, 2022, more than 5% of the Department's investments are held in the following: Federal Home Loan Bank (45%), Federal Home Loan Mortgage Company (15%), Federal Farm Credit Bank (12%), and Central Pacific Bank (9%).

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE E - CAPITAL ASSETS

Capital asset activity during the fiscal year ended June 30, 2022 were as follows:

	Balance July 1, 2021	Additions	Reductions/ Transfers	Balance June 30, 2022
Capital assets not being depreciated				
Land and land rights	\$ 1,307,422	\$ --	\$ --	\$ 1,307,422
Construction in progress	18,963,408	1,275,134	(10,954,764)	9,283,778
Total capital assets not being depreciated	<u>20,270,830</u>	<u>1,275,134</u>	<u>(10,954,764)</u>	<u>10,591,200</u>
Capital assets being depreciated				
Utility plant	321,470,710	14,194,562	(71,047)	335,594,225
General plant	24,691,528	219,755	(136,984)	24,774,299
Intangible assets	1,990,260	--	--	1,990,260
Total capital assets being depreciated	<u>348,152,498</u>	<u>14,414,317</u>	<u>(208,031)</u>	<u>362,358,784</u>
Less accumulated depreciation and amortization				
Utility plant	(111,109,023)	(5,871,800)	65,822	(116,915,001)
General plant	(9,735,180)	(975,720)	128,535	(10,582,365)
Intangible assets	(1,698,468)	(159,620)	--	(1,858,088)
Total accumulated depreciation and amortization	<u>(122,542,671)</u>	<u>(7,007,140)</u>	<u>194,357</u>	<u>(129,355,454)</u>
Total capital assets, net	<u>\$ 245,880,657</u>	<u>\$ 8,682,311</u>	<u>\$ (10,968,438)</u>	<u>\$ 243,594,530</u>

NOTE F - LONG-TERM DEBT

Bonds Payable - The full faith and credit of the County is pledged for the payment of the Department's bond obligations. The County has the power and is obligated to levy ad valorem taxes, without limitation as to rate or amount, on all real property subject to taxation by the County.

As of June 30, 2022 bonds payable consisted of the following:

General Obligation Bonds - County Series 2021A, original amount \$1,510,000, due in annual installments of \$350,000 to \$406,000 through August 2025, interest payments semi-annually from 3% to 5%.	\$ <u>1,510,000</u>
Subtotal	\$ <u>1,510,000</u>

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE F - LONG-TERM DEBT (Continued)

Subtotal carried forward	\$ 1,510,000
General Obligation Bonds - County Series 2021B, original amount \$1,680,800, due in annual installments of \$233,600 to \$250,000 through August 2029, interest payments semi-annually from 3% to 5%.	1,680,800
Public Improvement Bonds - County Series 2012A, original amount \$2,745,000, due in August 2022.	190,000
Build America Bonds - County Series 2010A, original amount of \$60,000,000, due in annual installments of \$2,605,000 to \$4,470,000 through August 2033, interest payments semi-annually from 4.76% to 5.76%.	40,790,000
	44,170,800
Premium on bond issuance	153,390
	<u>\$ 44,324,190</u>

The approximate annual debt service requirements to maturity as of June 30, 2022 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 3,145,000	\$ 2,241,000	\$ 5,386,000
2024	3,332,000	2,109,000	5,441,000
2025	3,490,000	1,949,000	5,439,000
2026	3,667,000	1,775,000	5,442,000
2027	3,429,000	1,596,000	5,025,000
2028 - 2032	19,648,000	4,973,000	24,621,000
2032 - 2034	<u>7,460,000</u>	<u>387,000</u>	<u>7,847,000</u>
Total	<u>\$ 44,171,000</u>	<u>\$ 15,030,000</u>	<u>\$ 59,201,000</u>

In previous years, the County and the Department defeased certain general obligation bonds by placing the proceeds of new bonds in an escrow account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Department's financial statements. As of June 30, 2022, \$8,543,684 of bonds outstanding are considered defeased.

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE F - LONG-TERM DEBT (Continued)

Loans Payable - The full faith and credit of the Board is pledged for the payment of the Department's loan obligations. The Board has the power to adjust water rates in order to raise funds sufficient to repay the Department's loan obligations.

The Department's outstanding loan obligations contain provisions that, in the event of default, an interest penalty will be assessed on outstanding loan repayment amounts beginning on the first day following the repayment due date and ending on the date the defaulted balances are paid.

As of June 30, 2022 loans payable consisted of the following:

State Revolving Fund ("SRF") Loan - Stable 1.0 MG Tank, last installment March 2029. Interest rate - 0.26%. Semi-annual loan fee rate - 1.625%. Date issued - March 15, 2009. Original amount - \$7,274,998.	\$ 2,710,055
SRF Loan - Poipu Road 16-inch Main Replacement, last installment January 2027. Interest rate - 0.16%. Semi-annual loan fee rate - 1.625%. Date issued - January 15, 2007. Original amount - \$5,158,886.	1,340,459
SRF Loan - Wailua Houselots Main Replacement, last installment April 2033. Interest rate - 0.5%. Semi-annual loan fee rate - 0.5%. Date issued - April 15, 2013. Original amount - \$4,463,084.	2,161,620
SRF Loan - Kaumualii Highway 12-inch Main Replacement, last installment August 2029. Interest rate - 0.32%. Semi-annual loan fee rate 1.625%. Date issued - August 15, 2009. Original amount - \$3,989,537.	1,568,418
SRF Loan - Kapilimoa 0.5 MG Tank, last installment January 2030. Interest rate - 0.42%. Semi-annual loan fee rate - 1.625%. Date issued - January 15, 2010. Original amount - \$3,793,779.	1,622,868
SRF Loan - Lihue Baseyard Improvements for the Department of Water, last installment December 2034. Interest rate - 0.5%. Semi-annual loan fee rate - 0.5%. Date issued - December 15, 2014. Original amount - \$4,000,000.	<u>1,298,574</u>
Subtotal	<u>\$ 10,701,994</u>

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE F - LONG-TERM DEBT (Continued)

Subtotal carried forward	\$ 10,701,994
SRF Loan - Waha, Wawae and Niho Roads Main Replacement, last installment August 2029. Interest rate - 0.32%. Semi-annual loan fee rate - 1.625%. Date issued - August 15, 2009. Original amount - \$1,936,018.	764,114
SRF Loan - 16-inch Waterline Replacement along Kuhio Highway, Leho Drive to North Papaloa Road, last installment February 2026. Interest rate - 0.16%. Semi-annual loan fee rate - 1.625%. Date issued - August 15, 2005. Original amount - \$2,305,093.	491,295
SRF Loan - Rehabilitate Lihue Steel Tanks 1 & 2, last installment January 2025. Interest rate - 0.46%. Semi-annual loan fee rate - 1.625%. Date issued - January 15, 2005. Original amount - \$1,243,017.	205,362
SRF Loan - Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well No. 3, last installment July 2023. Interest rate - 0.99%. Semi-annual loan fee rate - 1.625%. Date issued - July 15, 2003. Original amount - \$1,243,976.	104,351
SRF Loan - Ornellas 0.2 MG Tank, last installment March 2025. Interest rate - 0.58%. Semi-annual loan fee rate - 1.625%. Date issued - January 15, 2005. Original amount \$809,398.	132,518
SRF Loan - Rehabilitation of 27-inch Steel Pipeline - Hanapepe - Eleele Water System, last installment July 2023. Interest rate - 0.99%. Semi-annual loan fee rate - 1.625%. Date issued - July 15, 2003. Original amount - \$691,134.	58,196
SRF Loan - Wailua Homesteads Well No. 3, last installment March 2024. Interest rate - 0.54%. Semi-annual loan fee rate - 1.625%. Date issued - March 15, 2004. Original amount- \$397,737.	<div style="border-top: 1px solid black; display: inline-block; width: 100%;">43,958</div>
	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ 12,501,788</div>

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE F - LONG-TERM DEBT (Continued)

The approximate annual debt service requirements to maturity as of June 30, 2022 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	\$ 1,816,000	\$ 359,000	\$ 2,175,000
2024	1,768,000	300,000	2,068,000
2025	1,698,000	244,000	1,942,000
2026	1,589,000	191,000	1,780,000
2027	1,471,000	142,000	1,613,000
2028-2032	3,693,000	213,000	3,906,000
2033-2035	467,000	8,000	475,000
	<u>\$ 12,502,000</u>	<u>\$ 1,457,000</u>	<u>\$ 13,959,000</u>

NOTE G - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2022 were as follows:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Current Portion
General obligation bonds payable	\$ 47,430,800	\$ --	\$ (3,260,000)	\$ 44,170,800	\$ 3,145,000
Add premiums on bond issuance	212,004	--	(58,614)	153,390	--
Total bonds payable	47,642,804	--	(3,318,614)	44,324,190	3,145,000
Loans payable	14,411,883	--	(1,910,095)	12,501,788	1,816,483
Accrued vacation and compensatory pay	1,656,574	872,243	(867,946)	1,660,871	566,064
	<u>\$ 63,711,261</u>	<u>\$ 872,243</u>	<u>\$ (6,096,655)</u>	<u>\$ 58,486,849</u>	<u>\$ 5,527,547</u>

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE H - NET POSITION

As of June 30, 2022, net position consisted of the following:

Net investment in capital assets	
Capital assets, net	\$ 243,594,530
Less: Long-term debt, net	(56,825,978)
Less: Accounts and contracts payable attributable to capital assets	(3,443,524)
Unspent debt proceeds	9,324,658
Deferred gain on refunding	(96,549)
	<u>192,553,137</u>
Restricted for capital activity, debt service, and reserved funds	
Cash	3,299,291
Investments	8,302,062
Accounts receivable and other	354,045
Less: Unspent debt proceeds	(9,324,658)
Less: Restricted liabilities	(7,851)
	<u>2,622,889</u>
Unrestricted	<u>27,277,273</u>
	<u>\$ 222,453,299</u>

NOTE I - EMPLOYEES' RETIREMENT SYSTEM

Plan Description - All eligible employees of the State of Hawaii (the "State") and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefits, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at the ERS website: <https://ers.ehawaii.gov/resources/financials/>.

Benefits Provided - The ERS provides retirement, disability and death benefits that are covered by the provisions of the noncontributory, contributory and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier multiplied by the average final compensation multiplied by years of credited service. Average final compensation is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for employees 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 employees 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.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE I - EMPLOYEES' RETIREMENT SYSTEM (Continued)

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 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- *Death Benefits* - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and 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.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE I - EMPLOYEES' RETIREMENT SYSTEM (Continued)

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 is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- *Death Benefits* - For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

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

Contributory Class for 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 10 years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* - Disability and death benefits for contributory class members hired after June 30, 2012 are generally the same as those for contributory class members hired June 30, 2012 and prior.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE I - EMPLOYEES' RETIREMENT SYSTEM (Continued)

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 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- *Death Benefits* - For service-connected deaths, the 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 children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

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

Hybrid Class for 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 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE I - EMPLOYEES' RETIREMENT SYSTEM (Continued)

- *Disability and Death Benefits* - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death 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 5 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 Department's contribution rate for the year ended June 30, 2022 was 24%. Contributions to the pension plan from the Department were \$1,792,233 for the year ended June 30, 2022.

The employer is required to make all contributions for members in the noncontributory plan. 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, 2022, the Department reported a liability of approximately \$13,195,000, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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 June 30, 2021, the Department's proportion was .11%, which was a decrease of .03% from its proportion measured as of June 30, 2020.

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE I - EMPLOYEES' RETIREMENT SYSTEM (Continued)

For the year ended June 30, 2022, the Department recognized pension expense of approximately \$728,000. At June 30, 2022, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 368,840	\$ --
Changes of assumptions	36,384	--
Net difference between projected and actual earnings on pension plan investments	--	2,240,957
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,848,589	4,969,589
Employer contributions subsequent to the measurement date	1,792,233	--
	\$ 4,046,046	\$ 7,210,546

The Department reported \$1,792,233 as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2022 will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Net Deferred Inflows
2023	\$ (932,609)
2024	(863,597)
2025	(1,491,846)
2026	(1,552,514)
2027	(116,167)
	\$ (4,956,733)

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE I - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Actuarial assumption - The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Investment rate of return, including inflation	7.00%
Projected salary increases, including inflation	3.50% - 7.00%

Mortality rates used in the actuarial valuation as of June 30, 2021 were based on the following:

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

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

Disabled retirees: Base Table for healthy retiree's occupation, set forward 5 years, generational projection using the BB projection table from the year 2019.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2018. ERS updates their experience studies every five years.

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

Strategic Allocation (Risk-Based Classes)	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return*
Broad growth	63.0%	8.0%	5.9%
Diversifying strategies	37.0%	5.1%	3.0%
	<u>100.0%</u>		

* Uses an expected inflation rate of 2.10%

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE I - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Discount rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate - The following presents the Department's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage lower (6.00%) and one percentage higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Proportionate share of the net pension liability	\$ <u>17,998,073</u>	\$ <u>13,195,469</u>	\$ <u>9,235,998</u>

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the ERS's separately issued annual comprehensive financial report.

Payable to the Pension Plan - As of June 30, 2022, the amounts payable to the ERS totaled \$272,499, which consists of excess pension costs required by the HRS for fiscal year 2022.

NOTE J - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS

Plan description - The Department provides certain healthcare and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the Department contributes to the EUTF, an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues a publicly available annual financial report that can be obtained at <https://eutf.hawaii.gov/reports/>.

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

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE J - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than 10 years of service, the Department makes no contributions. For those retiring with at least 10 years of service but fewer than 15 years of service, the Department pays 50% of the base monthly contribution. For employees retiring with at least 15 years of service but fewer than 25 years of service, the Department pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the Department pays 100% of the base monthly contribution. 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 10 years of service, the Department makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Department pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the Department pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the Department pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Employees Covered by Benefit Terms - At July 1, 2021, the following number of plan members were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	53
Inactive employees entitled but not yet receiving benefits	10
Active employees	<u>93</u>
	<u>156</u>

Contributions - Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department were \$1,143,000 for the year ended June 30, 2022. The employer is required to make all contributions for members.

Net OPEB Liability

The Department's net OPEB liability was measured as of July 1, 2021, 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, 2022, the Department reported a net OPEB liability of \$4,866,291.

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE J - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)

Actuarial Assumptions - The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2021
Actuarial cost method	Entry age normal
Discount rate	7.00%
Inflation	2.50%
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.
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement.
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution ("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 & base monthly contribution	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.

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE J - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)

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

Strategic Allocation	Target Allocation	Long-Term Expected Real Rate of Return
Private equity	12.50%	10.19%
U.S. microcap	6.00%	7.62%
U.S. equity	16.00%	6.09%
Non-U.S. equity	11.50%	7.12%
Global options	5.00%	4.33%
Real assets	10.00%	6.16%
Private credit	8.00%	5.83%
TIPS	5.00%	-0.07%
Long treasuries	6.00%	1.06%
Alternative risk premia	5.00%	1.46%
Trend following	10.00%	2.01%
Reinsurance	5.00%	4.44%
	100.00%	

Discount rate. The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that Department contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. 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.

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE J - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2021	\$ <u>18,651,967</u>	\$ <u>10,925,235</u>	\$ <u>7,726,732</u>
Changes for the year:			
Service cost	432,883	--	432,883
Interest on the total OPEB liability	1,302,575	--	1,302,575
Difference between expected and actual experience	(544,543)	--	(544,543)
Contributions - employer	--	1,077,000	(1,077,000)
Net investment income	--	2,973,978	(2,973,978)
Benefit payments	(520,381)	(520,381)	--
Administrative expense	--	(1,541)	1,541
Other	--	1,919	(1,919)
Net changes	<u>670,534</u>	<u>3,530,975</u>	<u>(2,860,441)</u>
Balance at June 30, 2022	\$ <u>19,322,501</u>	\$ <u>14,456,210</u>	\$ <u>4,866,291</u>

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ <u>8,015,359</u>	\$ <u>4,866,291</u>	\$ <u>2,374,052</u>

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE J - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)

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

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ <u>2,237,121</u>	\$ <u>4,866,291</u>	\$ <u>8,249,324</u>

OPEB plan fiduciary net position - Detailed information about the OPEB plan's fiduciary net position is available in the EUTF's separately issued annual financial report.

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

For the year ended June 30, 2022, the Department recognized OPEB expense of approximately \$403,000. At June 30, 2022, 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
Differences between expected and actual experience	\$ 18,843	\$ 1,371,031
Changes of assumptions	150,151	78,168
Net difference between projected and actual earnings on OPEB plan investments	--	1,333,455
Employer contributions subsequent to the measurement date	<u>1,143,000</u>	<u>--</u>
	\$ <u>1,311,994</u>	\$ <u>2,782,654</u>

**Department of Water
 County of Kauai
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022**

NOTE J - POSTEMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS (Continued)

The Department reported \$1,143,000 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 ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	Net Deferred Inflows
2023	\$ (514,338)
2024	(512,236)
2025	(562,542)
2026	(684,808)
2027	(262,646)
Thereafter	(77,090)
	\$ (2,613,660)

NOTE K - DEFERRED COMPENSATION PLAN

The Department offers its employees, through the County, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time Department employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The plan's assets have been placed in trust accounts with the plan administrators for the exclusive benefit of participants and their beneficiaries, and are not considered assets of the County of the Department. Accordingly, the Department has excluded the plan assets from the financial statements. All such amounts are not subject to the claims of the Department or the County's general creditors.

NOTE L - COMMITMENTS AND CONTINGENCIES

Sick Leave

Accumulated sick leave as of June 30, 2022 was approximately \$2,101,000. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. As a result, no liability for sick pay is recorded in the accompanying financial statements. However, a public employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE L - COMMITMENTS AND CONTINGENCIES (Continued)

Workers' Compensation Insurance

Claims are reported to and managed by the County. Prior to July 1, 2001, the County retained all of its workers' compensation risk. Beginning July 1, 2001, the County purchased insurance with a \$500,000 deductible. The current deductible is \$550,000. The Department provides reserves for claims not covered by insurance that in the opinion of management will result in probable judgment against the Department. These reserves include an estimate of claims that have been incurred but not reported ("IBNR"). Claim liabilities, including IBNR, are based on the estimated ultimate cost of settling the claims. Claims liabilities are estimated by a case-by-case review of all claims and the application of historical experience to outstanding claims. As of June 30, 2022, the workers' compensation liability amount to approximately \$182,000 and is recorded in accounts payable and accrued liabilities in the statement of net position.

Safe Drinking Water Act

The Department is subject to the requirements of the Safe Drinking Water Act (the "Act"), which is administered by the State Department of Health on behalf of the U.S. Environmental Protection Agency. Management believes that the Department is in full compliance with the requirements of the Act and is not aware of any matters under the Act that may materially affect the Department's customer service area.

Water Treatment and Delivery Commitment

On February 19, 2004, the Department entered into a Water Treatment and Delivery Agreement ("Agreement") with an unrelated third-party developer. The Agreement requires the developer to build, operate, and maintain a surface water treatment plant ("SWTP") with a capacity of 3.0 million gallons per day ("MGD"). The Department is required to purchase, at a minimum, 2.0 MGD and also to provide the developer a credit towards its facility reserve charge. The initial term of the Agreement was 15 years and was extended through February 2023. The Agreement also provides the Department with the option of accepting the dedication of the SWTP at no cost after the reimbursement date, as defined. Expenses incurred under this Agreement totaled \$1,809,000 for the fiscal year ended June 30, 2022.

Other Legal Matters

The Department is party to various legal proceedings arising in the normal course of business. The outcome of individual matters is not predictable. However, management believes that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on the Department's financial position or results of operations.

Other

Other commitments, primarily for utility plant construction, approximated \$42,262,000 as of June 30, 2022.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

NOTE M - RELATED PARTY TRANSACTIONS

The Department charges the County for fire protection services (hydrant use) at agreed-to-rates that approximate the cost for such services. The County provides certain services to the Department and charges the Department for these services at an amount equal to the charge for fire protection services. The amount charged totaled \$2,215,302 for the fiscal year ended June 30, 3022.

REQUIRED SUPPLEMENTARY INFORMATION

**Department of Water
 County of Kauai
 SCHEDULE OF PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 Last Ten Fiscal Years***

Measurement Period Ended	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a %age of Covered Payroll	Plan Fiduciary Net Position as a %age of the Total Pension Liability
June 30, 2021	0.11%	\$ 13,195,469	\$ 6,382,000	206.76%	64.25%
June 30, 2020	0.14%	\$ 20,785,838	\$ 5,966,000	348.40%	53.18%
June 30, 2019	0.16%	\$ 21,971,493	\$ 5,840,000	376.22%	54.87%
June 30, 2018	0.12%	\$ 16,156,668	\$ 5,633,000	286.82%	55.48%
June 30, 2017	0.12%	\$ 15,423,518	\$ 5,515,000	279.66%	54.80%
June 30, 2016	0.13%	\$ 16,921,133	\$ 5,110,000	331.14%	51.28%
June 30, 2015	0.13%	\$ 11,310,002	\$ 4,836,000	233.87%	62.42%
June 30, 2014	0.12%	\$ 9,317,991	\$ 4,645,000	200.60%	63.92%
June 30, 2013	0.12%	\$ 10,322,299	\$ 4,385,000	235.40%	57.96%

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

See accompanying notes to required supplementary information.

**Department of Water
 County of Kauai
 SCHEDULE OF CONTRIBUTIONS (PENSION)
 Last Ten Fiscal Years**

Fiscal Year Ended	Statutorily Required Contribution	Contributions in Relation to Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a %age of Covered Payroll
June 30, 2022	\$ 1,792,233	\$ 1,520,000	\$ 272,233	\$ 6,332,000	24.01%
June 30, 2021	\$ 1,532,000	\$ 1,532,000	\$ --	\$ 6,382,000	24.01%
June 30, 2020	\$ 1,325,000	\$ 1,325,000	\$ --	\$ 5,966,000	22.21%
June 30, 2019	\$ 1,109,000	\$ 1,109,000	\$ --	\$ 5,840,000	18.99%
June 30, 2018	\$ 1,016,000	\$ 1,016,000	\$ --	\$ 5,633,000	18.04%
June 30, 2017	\$ 938,000	\$ 938,000	\$ --	\$ 5,515,000	17.01%
June 30, 2016	\$ 911,000	\$ 911,000	\$ --	\$ 5,110,000	17.83%
June 30, 2015	\$ 798,000	\$ 798,000	\$ --	\$ 4,836,000	16.50%
June 30, 2014	\$ 745,000	\$ 745,000	\$ --	\$ 4,645,000	16.04%
June 30, 2013	\$ 679,000	\$ 679,000	\$ --	\$ 4,385,000	15.48%

See accompanying notes to required supplementary information.

**Department of Water
County of Kauai
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 68
Fiscal Years Ended June 30, 2022**

NOTE A - CHANGES OF ASSUMPTIONS

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

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

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

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

**Department of Water
 County of Kauai**
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
 AND RELATED RATIOS**
Last Ten Fiscal Years*

	2022	2021	2020	2019	2018
Total OPEB liability					
Service cost	\$ 432,883	\$ 426,197	\$ 406,353	\$ 380,070	\$ 380,075
Interest on the total OPEB liability	1,302,575	1,307,741	1,221,753	1,144,135	1,073,630
Difference between expected and actual experience	(544,543)	(1,183,289)	33,498	(135,272)	--
Changes of assumptions or other inputs	--	(109,324)	83,252	237,370	--
Benefit payments	<u>(520,381)</u>	<u>(516,535)</u>	<u>(536,228)</u>	<u>(525,000)</u>	<u>(368,000)</u>
Net change in total OPEB liability	670,534	(75,210)	1,208,628	1,101,303	1,085,705
Total OPEB liability - Beginning	<u>18,651,967</u>	<u>18,727,177</u>	<u>17,518,549</u>	<u>16,417,246</u>	<u>15,331,541</u>
Total OPEB liability - Ending	<u>\$ 19,322,501</u>	<u>\$ 18,651,967</u>	<u>\$ 18,727,177</u>	<u>\$ 17,518,549</u>	<u>\$ 16,417,246</u>
Plan fiduciary net position					
Contributions - employer	\$ 1,077,000	\$ 1,041,000	\$ 1,011,000	\$ 948,000	\$ 1,287,000
Net investment income	2,973,978	199,294	399,132	588,700	654,929
Benefit payments	(520,381)	(516,535)	(536,228)	(525,000)	(368,000)
Other OPEB Administrative expense	(1,541)	(1,598)	(2,874)	(1,803)	(1,485)
Other	<u>1,919</u>	<u>1,781</u>	<u>271,018</u>	<u>--</u>	<u>8,474</u>
Net change in plan fiduciary net position	3,530,975	723,942	1,142,048	1,009,897	1,580,918
Plan fiduciary net position - Beginning	<u>10,925,235</u>	<u>10,201,293</u>	<u>9,059,245</u>	<u>8,049,348</u>	<u>6,468,430</u>
Plan fiduciary net position - Ending	<u>\$ 14,456,210</u>	<u>\$ 10,925,235</u>	<u>\$ 10,201,293</u>	<u>\$ 9,059,245</u>	<u>\$ 8,049,348</u>
Net OPEB liability - ending	<u>\$ 4,866,291</u>	<u>\$ 7,726,732</u>	<u>\$ 8,525,884</u>	<u>\$ 8,459,304</u>	<u>\$ 8,367,898</u>
Plan fiduciary net position as a percentage of the total OPEB liability	74.82%	58.57%	54.47%	51.71%	49.03%
Covered-employee payroll	\$ 6,382,000	\$ 5,966,000	\$ 5,840,000	\$ 5,787,000	\$ 5,700,000
Net OPEB Liability as a Percentage of Covered-employee payroll	76.25%	129.51%	145.99%	146.18%	146.81%

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

See accompanying notes to required supplementary information.

**Department of Water
 County of Kauai
 SCHEDULE OF CONTRIBUTIONS (OPEB)
 Last Ten Fiscal Years***

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a %age of Covered- Employee Payroll
June 30, 2022	\$ 1,143,000	\$ 1,143,000	\$ --	\$ 6,332,000	18.05%
June 30, 2021	\$ 1,077,000	\$ 1,077,000	\$ --	\$ 6,382,000	16.88%
June 30, 2020	\$ 1,041,000	\$ 1,041,000	\$ --	\$ 5,966,000	17.45%
June 30, 2019	\$ 1,011,000	\$ 1,011,000	\$ --	\$ 5,840,000	17.31%
June 30, 2018	\$ 1,002,000	\$ 948,000	\$ 54,000	\$ 5,787,000	16.38%
June 30, 2017	\$ 968,000	\$ 968,000	\$ --	\$ 5,700,000	16.98%
June 30, 2016	\$ 914,000	\$ 883,000	\$ 31,000	\$ 5,269,000	16.76%
June 30, 2015	\$ 884,000	\$ 885,000	\$ (1,000)	\$ 5,068,000	17.46%

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

See accompanying notes to required supplementary information.

**Department of Water
 County of Kauai
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 REQUIRED BY GASB STATEMENT NO. 75
 Fiscal Years Ended June 30, 2022**

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The actuarially determined annual required contributions for the fiscal year ended June 30, 2022 was developed in the July 1, 2019 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2022:

Actuarial valuation date	July 1, 2019
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	16.2 as of June 30, 2022
Asset valuation method	4-year smoothed market
Inflation rate	2.50%
Discount rate	7.00%
Payroll growth	3.50%
Salary increases	3.50% to 7.00% including inflation
Demographic assumptions	Based on the experience study covering the five year period ending June 30, 2018 as conducted for the Hawaii Employees' Retirement System
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 8%, declining to a rate of 4.86% after 12 years
HMO	Initial rate of 8%, declining to a rate of 4.86% after 12 years
Part B	Initial rate of 5%; declining to a rate of 4.7% after 11 years
Dental	Initial rate of 5%, declining to a rate of 4% for all future years
Vision	Initial rate of 0% for the first 2 years, followed by 2.5% for all future years
Life Insurance	0%

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

SUPPLEMENTARY INFORMATION

**Department of Water
 County of Kauai
 SCHEDULE I - SCHEDULE OF UTILITY PLANT-IN-SERVICE
 Fiscal Year Ended June 30, 2022**

	Balance July 1, 2021	Additions	Reductions/ Transfers	Balance June 30, 2022
Cost basis				
Land and land rights				
Source	\$ 837,879	\$ --	\$ --	\$ 837,879
Pumping	156	--	--	156
Water treatment	150	--	--	150
Transmission and distribution	469,237	--	--	469,237
Total land and land rights	<u>1,307,422</u>	<u>--</u>	<u>--</u>	<u>1,307,422</u>
Utility plant				
Source	12,241,005	--	--	12,241,005
Pumping	48,841,522	622,825	--	49,464,347
Water treatment	10,282,654	132,548	--	10,415,202
Transmission and distribution	250,105,529	13,439,189	(71,047)	263,473,671
Total utility plant capital assets	<u>321,470,710</u>	<u>14,194,562</u>	<u>(71,047)</u>	<u>335,594,225</u>
General Plant	24,691,528	219,755	(136,984)	24,774,299
Intangible assets				
Easements	35,722	--	--	35,722
Software	1,954,538	--	--	1,954,538
Total intangible assets	<u>1,990,260</u>	<u>--</u>	<u>--</u>	<u>1,990,260</u>
	<u>\$ 349,459,920</u>	<u>\$ 14,414,317</u>	<u>\$ (208,031)</u>	<u>\$ 363,666,206</u>
	Balance July 1, 2021	Additions	Reductions/ Transfers	Balance June 30, 2022
Accumulated depreciation and amortization				
Utility plant				
Source	\$ 5,991,964	\$ 267,045	\$ --	\$ 6,259,009
Pumping	29,307,505	1,553,628	--	30,861,133
Water treatment	9,322,965	56,305	--	9,379,270
Transmission and distribution	66,486,589	3,994,822	(65,822)	70,415,589
Total utility plant accumulated depreciation	<u>111,109,023</u>	<u>5,871,800</u>	<u>(65,822)</u>	<u>116,915,001</u>
General Plant	9,735,180	975,720	(128,535)	10,582,365
Intangible assets	1,698,468	159,620	--	1,858,088
	<u>\$ 122,542,671</u>	<u>\$ 7,007,140</u>	<u>\$ (194,357)</u>	<u>\$ 129,355,454</u>

**Department of Water
 County of Kauai
 SCHEDULE II - SCHEDULE OF SELECTIVE ACCOUNT CLASSIFICATIONS
 As of and for the Five Fiscal Years Ended June 30, 2022
 (All Dollars in Thousands)**

	2022	2021	2020	2019	2018
Statements of Net Position					
Utility plant in service	\$ <u>363,666</u>	\$ <u>349,460</u>	\$ <u>347,015</u>	\$ <u>345,665</u>	\$ <u>337,177</u>
Net Position					
Net investment in capital assets	\$ 192,553	\$ 193,552	\$ 163,824	\$ 160,382	\$ 151,506
Restricted for capital activity and debt service	2,623	3,575	2,050	905	809
Unrestricted	<u>27,277</u>	<u>23,447</u>	<u>32,387</u>	<u>36,807</u>	<u>36,522</u>
	<u>\$ 222,453</u>	<u>\$ 220,574</u>	<u>\$ 198,261</u>	<u>\$ 198,094</u>	<u>\$ 188,837</u>
Statements of Revenues, Expenses and Changes in Net Position					
Resources					
Water Sales	\$ 28,473	\$ 25,321	\$ 26,672	\$ 27,959	\$ 27,910
Other	<u>2,407</u>	<u>2,405</u>	<u>2,341</u>	<u>2,599</u>	<u>2,540</u>
	<u>\$ 30,880</u>	<u>\$ 27,726</u>	<u>\$ 29,013</u>	<u>\$ 30,558</u>	<u>\$ 30,450</u>
Operating Expenses					
Administrative and general	8,102	9,550	10,895	8,951	8,394
Depreciation and amortization	7,021	7,110	7,190	6,865	7,633
Transmission and distribution	4,531	5,342	5,210	4,047	4,165
Power and pumping	3,197	2,904	2,941	3,034	2,982
Accounting and collection	957	1,257	1,151	1,200	1,067
Other	<u>3,453</u>	<u>6,093</u>	<u>3,579</u>	<u>3,013</u>	<u>2,330</u>
	<u>\$ 27,261</u>	<u>\$ 32,256</u>	<u>\$ 30,966</u>	<u>\$ 27,110</u>	<u>\$ 26,571</u>
Nonoperating expenses	(4,467)	(2,775)	(1,384)	(923)	(3,502)
Contributions	<u>2,727</u>	<u>4,000</u>	<u>3,505</u>	<u>6,731</u>	<u>4,978</u>
	<u>\$ 1,879</u>	<u>\$ (3,305)</u>	<u>\$ 168</u>	<u>\$ 9,256</u>	<u>\$ 5,355</u>

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



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

To the Board of Water Supply
Department of Water, County of Kauai

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Department of Water (the "Department"), a component unit of the County of Kauai, as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated January 30, 2023.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2022-01 to be a material weakness.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2022-02 and 2022-03 to be significant deficiencies.

Report on Compliance and Other Matters

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

Department of Water's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

N + K CPAs, INC.

Honolulu, Hawaii
January 30, 2023

SCHEDULE OF FINDINGS

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS
Fiscal Year Ended June 30, 2022**

2022-001 Improve Internal Communication

Criteria:

An entity should have a process in place to facilitate effective communication of all significant matters and activities which may have an effect on the determination of financial statement amounts and disclosures in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Condition:

The Department did not fully evaluate the effect of certain significant matters and activities that were relevant to the preparation of the Department's financial statements as of and for the fiscal year ended June 30, 2022. The evaluation of these matters was completed by management based upon our audit inquiries and resulted in an audit adjustment.

Cause:

The Department did not effectively communicate between the fiscal division and other divisions of the Department on certain significant matters and activities that were relevant to the determination of financial statements amounts in accordance with GAAP.

Effect:

The lack of effective communication could result in a material misstatement of the Department's financial statements.

Recommendation:

We recommend that the Department implement a process to facilitate effective communication of all significant matters and activities which may have an effect on the Department's financial statements.

Views of Responsible Officials and Planned Corrective Action:

See management's Corrective Action Plan on pages 68 to 69.

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2022**

2022-002 IT General Control Deficiencies

Criteria:

Information technology (IT) is used to initiate, record, process and report on transactions included in the financial statements. The systems and related processes should include internal controls to prevent and/or detect misstatements over financial reporting.

Condition:

Several IT internal control deficiencies in the areas of logical security, physical security, and change management existed during the fiscal year ended June 30, 2022:

Logical security

- Formal security procedures are not consistently followed for terminated users.
- Password security requirements are not consistent with current industry standards.
- Lack of formal policies and procedures over domain administrator and other privileged accounts.
- Lack of security awareness training for employees.
- Informal patch management process for critical systems.
- Lack of vulnerability assessment.

Physical security

- Various employees have physical access to the server room with no monitoring control in place to detect unauthorized events.

Change management

- Lack of formal change management policies and procedures.

Cause:

The Department's IT policies and procedures do not include internal control procedures addressing the internal control deficiencies described above and procedures are not consistently followed.

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2022**

2022-002 IT General Control Deficiencies (Continued)

Effect:

Internal controls in the areas of logical security, physical security, and change management address the following risks:

Logical security and physical security

Unauthorized access to financial systems could result in the loss of data and/or data integrity, unauthorized or nonexistent transactions being made, or transactions being inaccurately recorded.

Change management

Unauthorized or untested changes to the production environment could cause the financial systems to either process data differently than intended or unexpectedly compromise the integrity of the data maintained.

Recommendation:

We recommend that the Department perform the following:

Logical security

- Design and implement a formal process for management to monitor the effectiveness of security procedures to remove or disable access of terminated users to the Department's systems.
- Reevaluate the sufficiency of the Department's password security policies and reconfigure systems accordingly.
- Design and implement formal policies and procedures over domain administrator and other privileged accounts.
- Design and implement a formal security awareness training program for employees.
- Appropriately update systems to ensure vendor support and maintenance.
- In July 2022 the Department completed a vulnerability assessment performed by an independent contractor. Management should carefully review the findings from the assessment and develop a plan to prioritize and address the findings.

Physical security

- Ensure that physical access to the data center is only granted to those based on job responsibility.

Change management

- Implement formal policies and procedures to ensure changes to production are consistently and appropriately authorized, tested, accepted and tracked.

Views of Responsible Officials and Planned Corrective Action:

See management's Corrective Action Plan on pages 68 to 69.

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2022**

2022-003 Improve Procedures to Identify and Account for Contracts

Criteria:

The Department enters into contracts for many types of goods and services, including contracts that conveys to the Department control of the right to use another entity's property, plant, or equipment. Management should carefully analyze all of the Department's contracts to determine the appropriate accounting and financial reporting treatment in accordance with GAAP.

In 2022, the Department implemented the accounting and financial reporting requirements of the Governmental Accounting Standards Board's Statement No. 87, *Leases* ("GASB No. 87"). The objective of GASB No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases, defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Management determined that the implementation of GASB No 87 did not have a material effect on the Department's financial statements as of and for the fiscal year ended June 30, 2022.

Condition:

Management did not analyze all of the Department's contracts for goods and services in a timely manner to identify contracts that fell within the scope of GASB No. 87.

Cause:

The Department does not have formal policies and procedures designed to identify and analyze all contracts for goods and services for proper accounting and financial reporting treatment in accordance with GAAP.

Effect:

The lack of formal policies and procedures could result in a misstatement of the Department's financial statements

Recommendation:

We recommend designing and implementing formal policies and procedures to identify and analyze all contracts for goods and services in order to determine the proper accounting and financial reporting treatment for each contract in accordance with GAAP. This would include the establishment of a centralized contract register that includes pertinent data about each contract, such as the commencement date, the contract term (including any options to extend or terminate the contract), the payment terms (including any variable payment arrangements), and a brief description of the nature of the goods and services received by the Department. This would likely require effective and timely communication between the various divisions of the Department to ensure that the Fiscal division is provided with all relevant information needed to carry out its accounting and financial reporting responsibilities.

Views of Responsible Officials and Planned Corrective Action:

See management's Corrective Action Plan on pages 68 to 69.

CORRECTIVE ACTION PLAN

DEPARTMENT OF WATER

COUNTY OF KAUAI

4398 PUA LOKE STREET LIHUE, HAWAII 96766

WWW.KAUAIWATER.ORG (808) 245-5400 BUSINESS (808) 245-5813 FAX



County of Kauai

JOSEPH E. TAIT
MANAGER AND CHIEF ENGINEER

MICHAEL K. HINAZUMI, P.E.
DEPUTY MANAGER-ENGINEER

January 30, 2023

N&K CPAs, Inc.
999 Bishop Street, Suite 2200
Honolulu, Hawaii 96813

Dear Audit Project Team:

Thank you for the opportunity to provide comments on the Schedule of Findings issued in connection with the financial statement audit of the Department of Water, County of Kauai (the Department) for the fiscal year ended June 30, 2022.

We commend N&K CPAs staff for the way they conducted the audit in a professional, timely, and collaborative manner and the opportunity they provided for staff and management to respond and interact with your project manager and team members.

The following section reflects management's planned corrective action for the findings and recommendations presented in this annual audit.

Sincerely,

Joseph E. Tait
Manager and Chief Engineer

JT/mja

Signature:

Email: riwane@nkcpa.com

CORRECTIVE ACTION PLAN

2022-001 **Improve Internal Communication**

- The Manager & Chief Engineer (MCE) will continue to hold bi-weekly Division/Section Head (DHE) meetings.
- MCE will require meeting minutes of these DHE meetings distributed for use by attendees when researching critical decisions and plans.

2022-002 **IT General Control Deficiencies**

Logical Security

- A formal offboarding process will be designed and implemented for use by the IT Manager and Human Resources Coordinator to ensure effective termination of users as they separate from DOW.
- Ensure a process that documents non-adherence to password security policies and that protection of systems has been adequately demonstrated to management.
- DOW Policies and Procedures will be developed for use by Management upon recommendations from the IT Steering Committee and retained IT consultants contracted by DOW.
- DOW will utilize CISA and contracted IT security consultants to design a new Security Awareness Program implemented through the IT Manager.
- This is currently underway as DOW has contracted with professional services firms to work alongside IT staff.
- This effort will be completed in conjunction with hardware, software, and staffing augmentation overseen by the IT Manager.

Physical Security

- Management and the IT Manager will identify and monitor server room access.

Change Management

- The IT Steering Committee will design and recommend a new DOW SOP to define and ensure that changes to systems are authorized, tested, accepted, and tracked.

2022-003 **Improve Procedures to Identify and Account for Contracts**

- Management will design, implement, and monitor collection, additions, changes to and elimination of DOW contracts and agreements to ensure staff efficiency through utilization of a one-source database.

A horizontal splash of clear blue water with bubbles, positioned behind the text.

STAFF

REPORTS

DEPARTMENT OF WATER

County of Kaua'i

"Water has no Substitute – Conserve it!"

INFORMATION & EDUCATION SPECIALIST REPORT

February 16, 2023

Public Notices and Announcements

All news releases are sent to statewide media partners, published online via the Department of Water's (DOW) Facebook page and on the County of Kaua'i's website at www.kauai.gov/press-releases. Notices labeled as a Public Service Announcement (PSA) are shared directly with local radio stations, newspaper and posted on the Department's Facebook page. Additionally, roadwork notices are emailed to the Department of Transportation (DOT) communications office.

Service Announcements:

<i>Date Issued</i>	<i>Water System & Affected Service Areas</i>	<i>Announcement</i>	<i>Effective Date & Times</i>	<i>Other Notices</i>
01/29/2023	KAPA'A – Kūhi'ō Highway between Aleka Loop and Kamoā Road	Emergency water service shutdown and partial lane on Kūhi'ō Highway due to mainline break	Jan. 29, 2023 from 9 p.m. to 2 a.m. Jan. 30, 2023	Kaua'i Alert
01/30/2023	HANALEI to HAENA – all customers	Water conservation notice until further notice	Jan. 30 from approximately 6:15 a.m.	Kaua'i Alert
01/31/2023	Same as above	Water conservation notice lifted	Jan. 31 at 11 a.m.	Kaua'i Alert

Public Relations Program

Community Outreach & Education

- The Department's "Wise Water Wednesday" campaign for the month of February includes automatic bill payment, tips on conservation at home: toilet flapper replacement, outdoor water use and checking for leaks. The weekly media campaign is published on the Department's Facebook page, radio advertisements and via print in the Garden Island Newspaper's local section.
- The Department of Water participated in the Science, Technology, Reading, Engineering, Art and Math (STREAM) night event at the St. Theresa School in Kekaha on February 1, 2023. The PR section presented two (2) educational activities, 1.) Water Math, an interactive exhibit where students utilize math skills to calculate water loss and potential conservation methods in the home and 2.) H2O Olympics part one, a fun game demonstrating surface tension where students try to fit as many water drops onto a penny as possible until it explodes. Families received prizes for their accuracy and participation. Special thanks to Terrilyn and David Amarin, Krist'l Castillo-Gray, Matthew Taboniar and Jonell Kaohelaui'i for representing the DOW and for successfully conducting the educational activities with students and their families.

Upcoming Community Outreach & Educational Events

- EPA's Fix a Leak Week - March 13-17, 2023
- Career Day Presentation at King Kaumuali'i Elementary School – March 29, 2023

- Make a Splash with Project WET Festival – September 15, 2023

Project WET (Water Education Today) Hawaii

- Jonell Kaohelaulii completed and submitted the 2022 annual report for Project WET Hawai'i. In 2022, Project WET Hawai'i conducted 2 training and certification workshops, coordinated the return of its annual Make a Splash with Project WET Hawai'i Festival and utilized the Project WET curriculum to educate more than 1,200 students, teachers and members of the public about water.
- The Make with Splash with Project WET Festival has been confirmed for Friday, Sept. 19, 2023 and pre-planning arrangements are being made. A save-the-date postcard was sent to past community volunteers and participating agencies.

Attachments: *HawaiiNewsNow* (Power outages, severe weather prompts water conservation notice for Kauai)

Posted on 01-30-2023 on Hawai'i News Now.com

Power outages, severe weather prompts water conservation notice for Kauai



By HNN Staff

Published: Jan. 30, 2023 at 6:41 AM HST | Updated: Jan. 30, 2023 at 7:18 AM HST



HONOLULU (HawaiiNewsNow) - A water conservation notice has been issued for Kauai until further notice, the state Department of Water said Monday.

Officials are asking residents from Hanalei to Haena to conserve water, due to power outages and severe weather conditions in the area.

Customers are advised to limit water use to essential needs only, such as cooking, drinking or sanitation use, to prevent a full water service outage.

Multiple weather alerts are in effect Monday as a winter storm batters the state, bringing strong winds and flooding rains to many island communities.

Forecasters say the threat of flash flooding will continue through Monday.

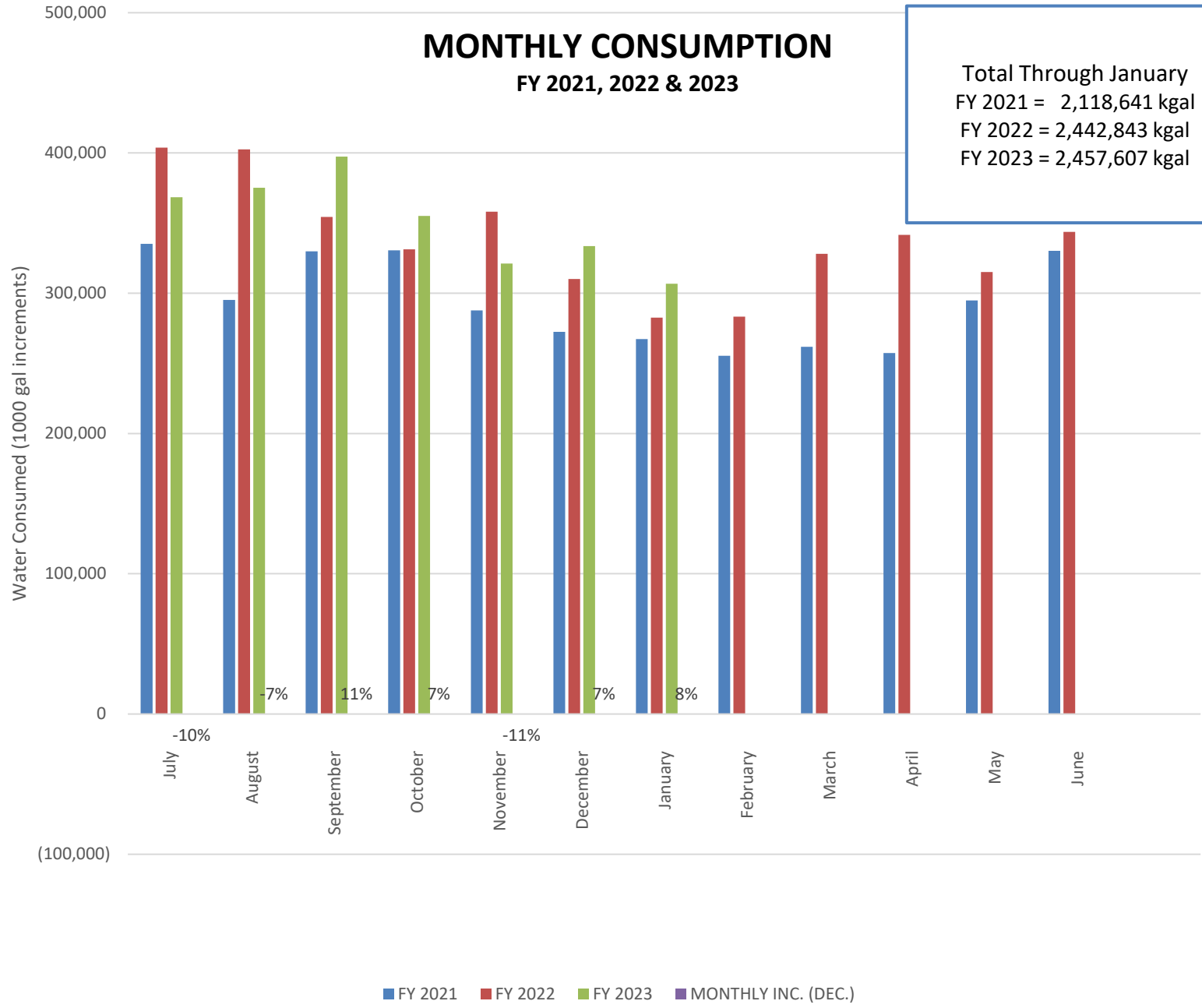
This story will be updated.

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MONTHLY CONSUMPTION

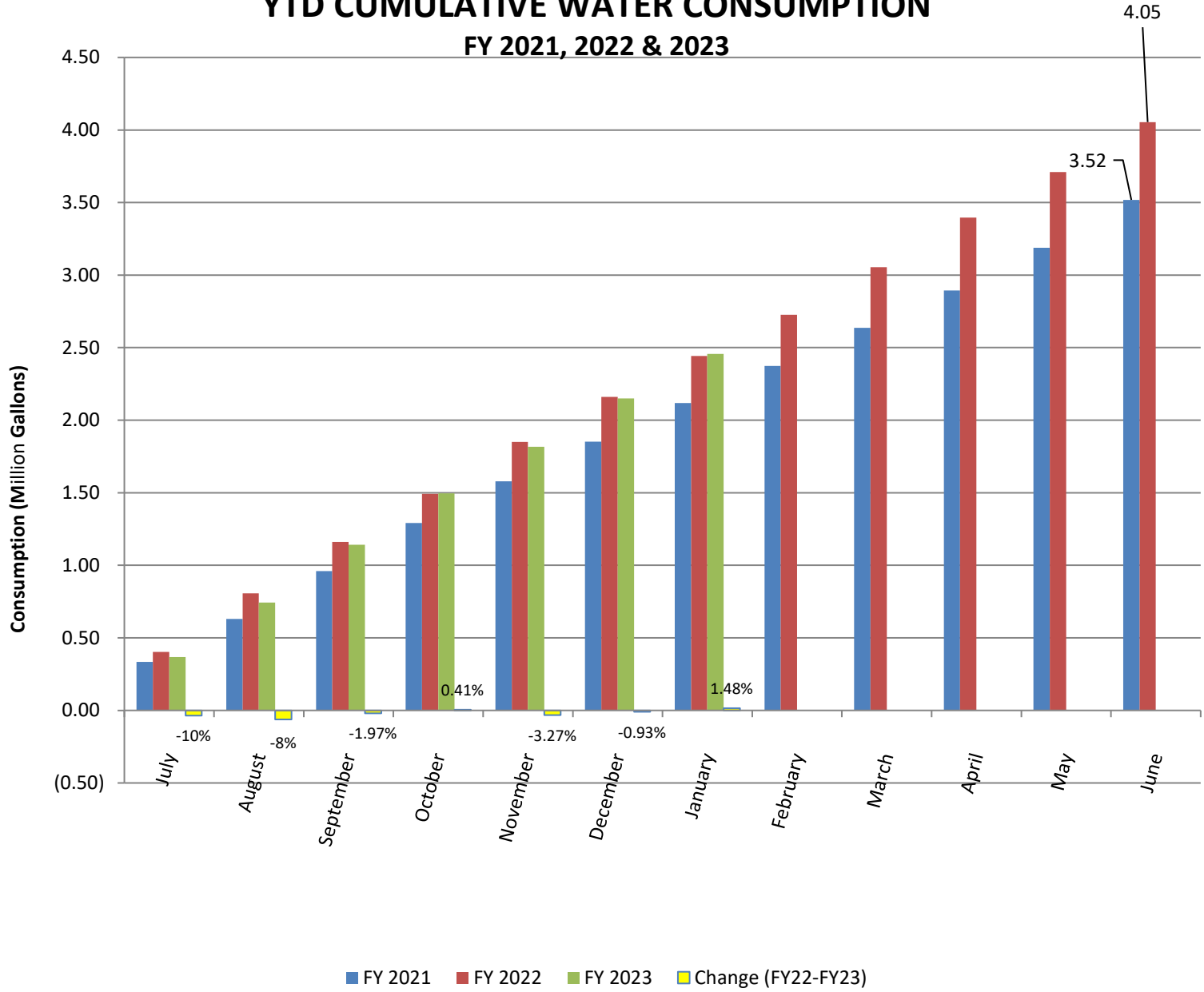
FY 2021, 2022 & 2023

Total Through January
 FY 2021 = 2,118,641 kgal
 FY 2022 = 2,442,843 kgal
 FY 2023 = 2,457,607 kgal

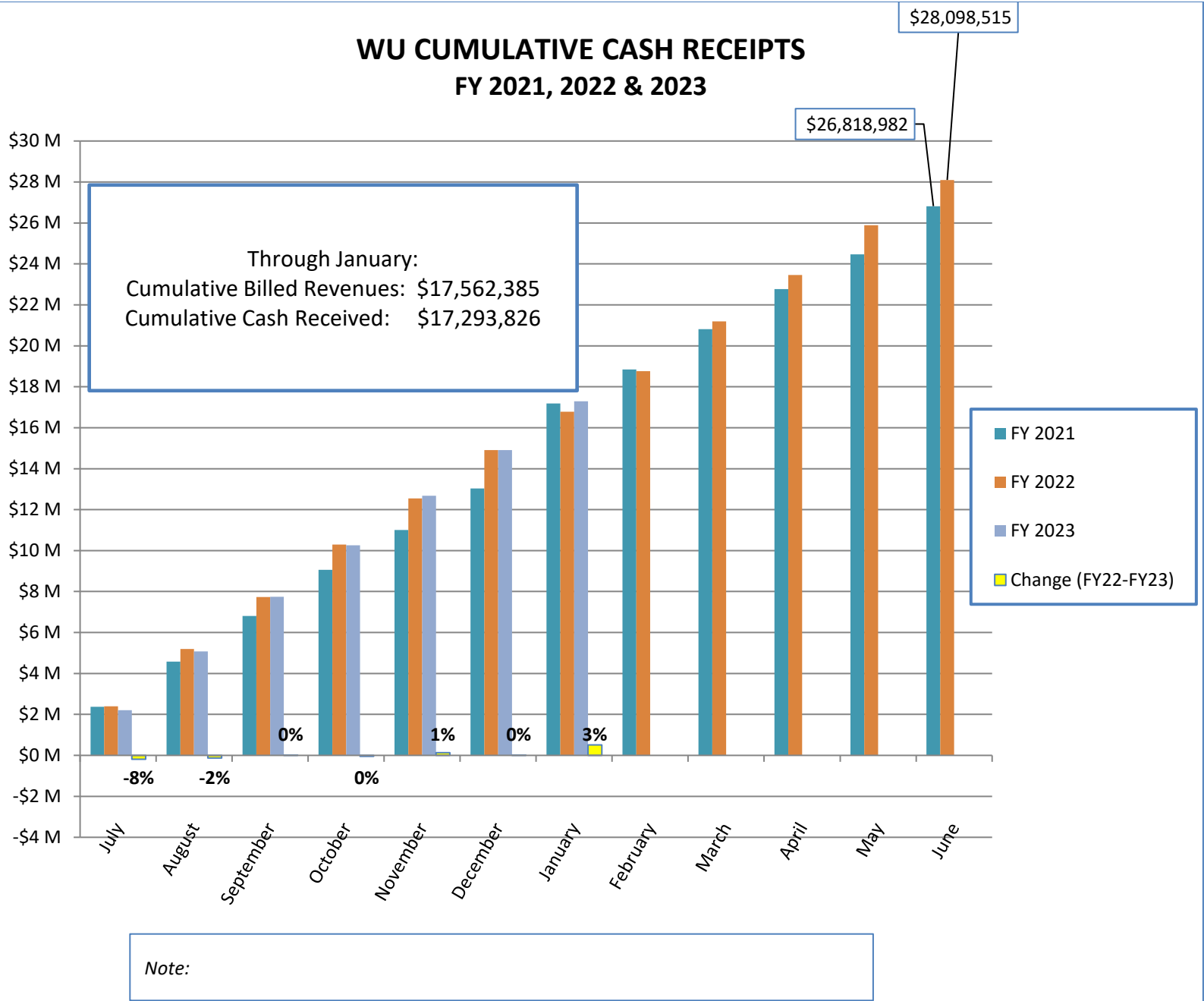


YTD CUMULATIVE WATER CONSUMPTION

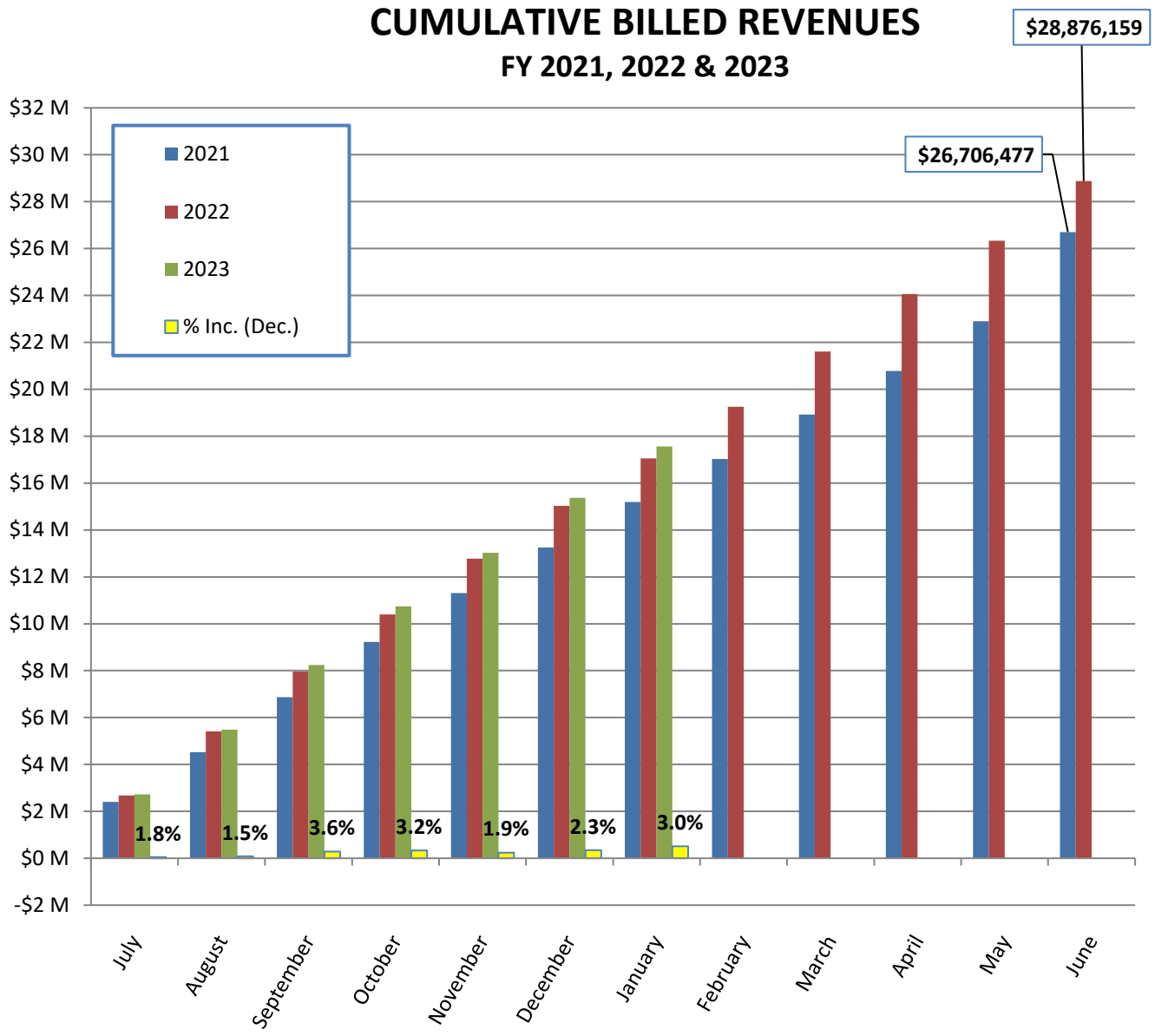
FY 2021, 2022 & 2023



WU CUMULATIVE CASH RECEIPTS FY 2021, 2022 & 2023

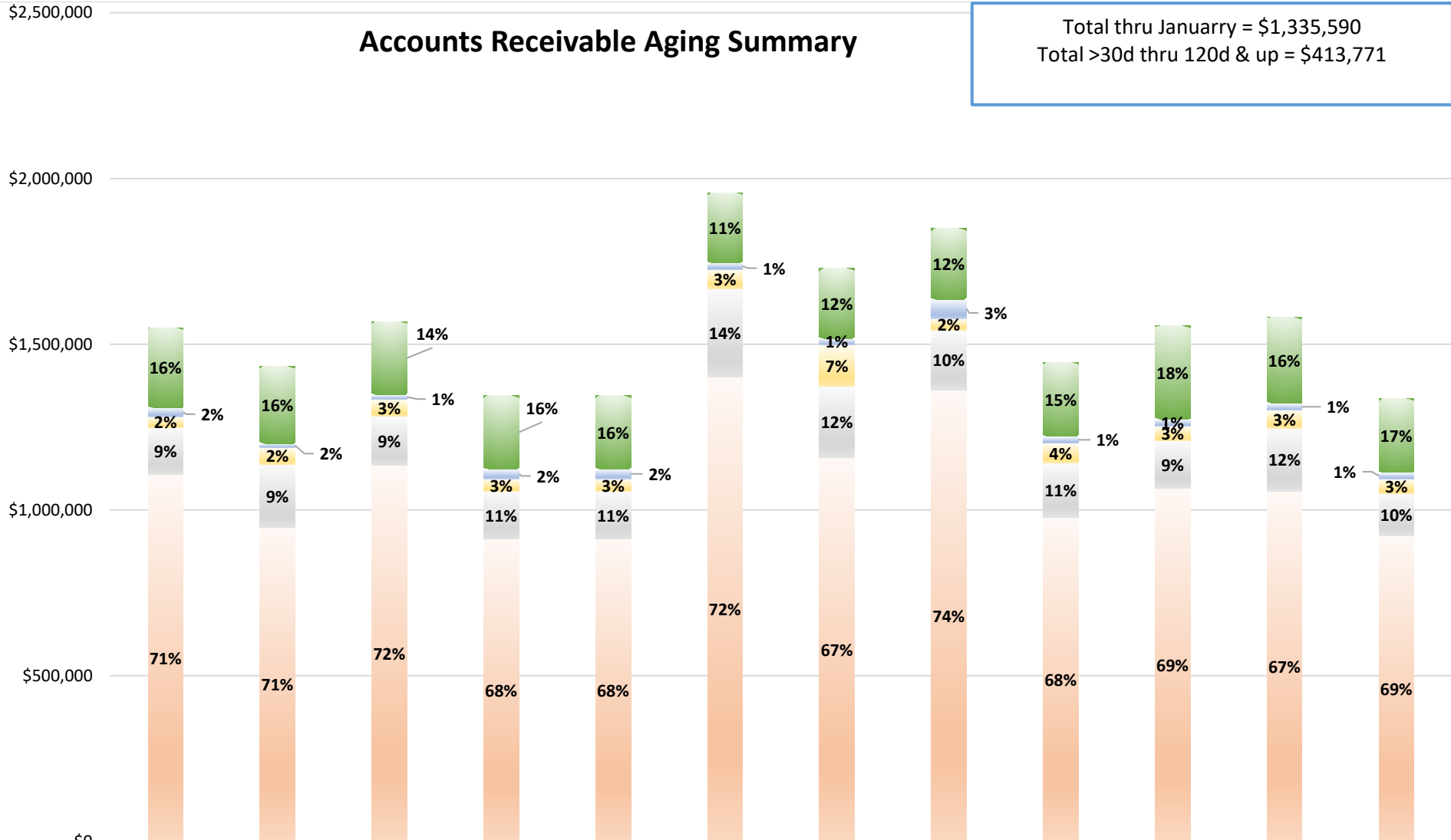


CUMULATIVE BILLED REVENUES FY 2021, 2022 & 2023



Accounts Receivable Aging Summary

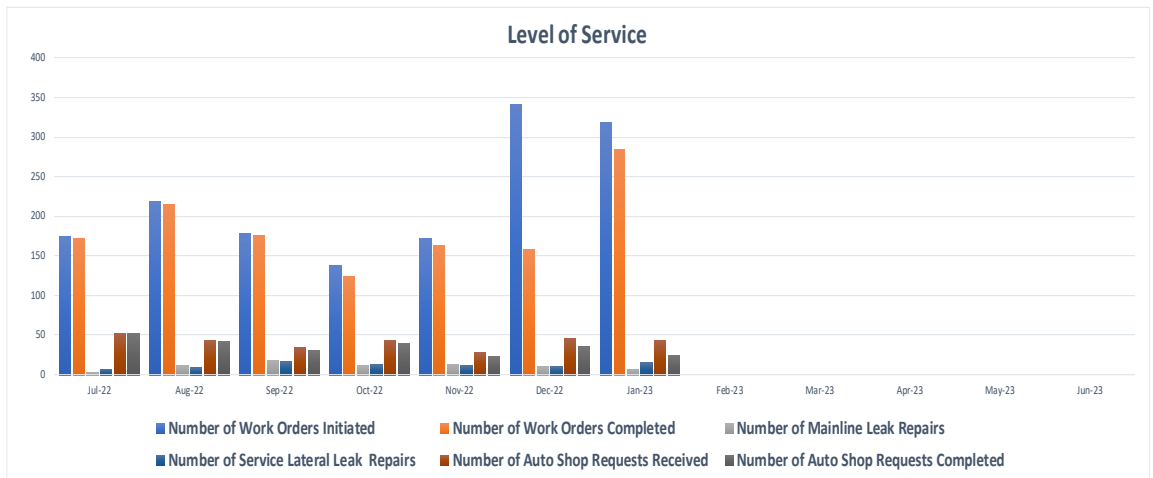
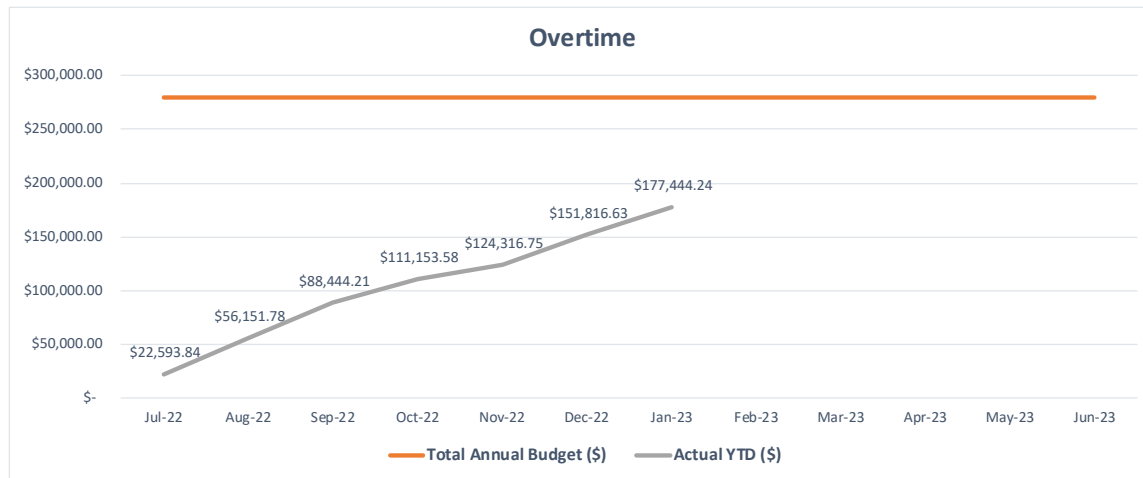
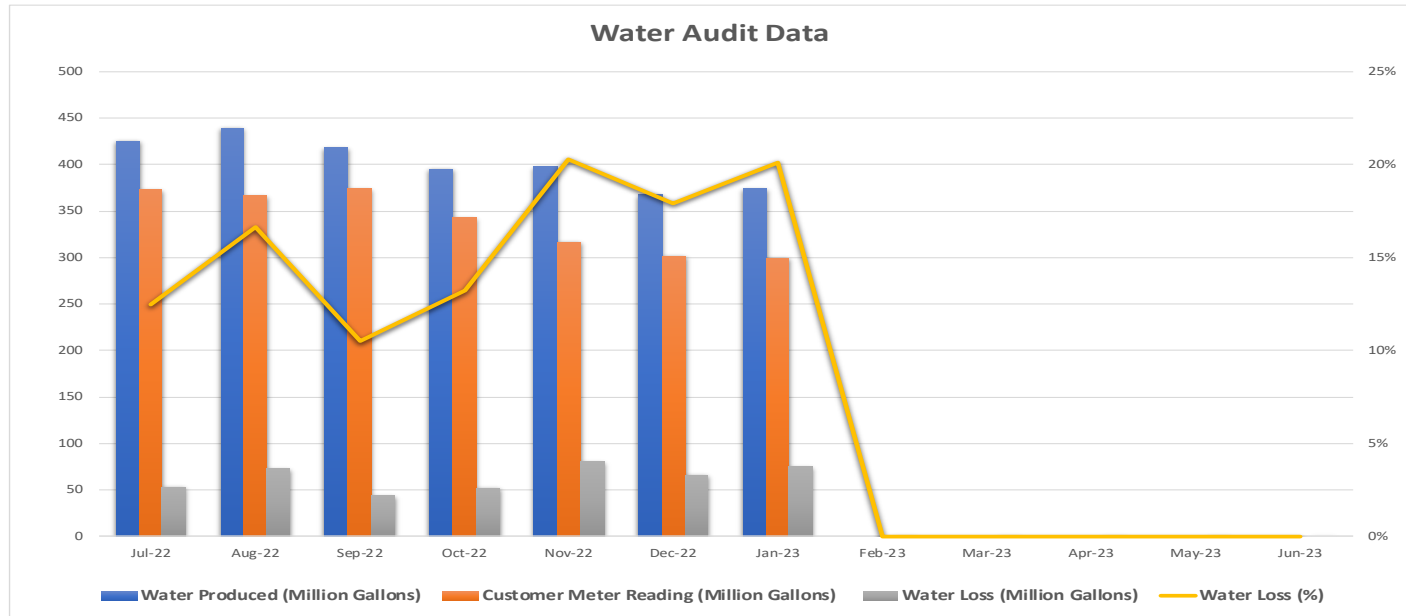
Total thru January = \$1,335,590
 Total >30d thru 120d & up = \$413,771



	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
121 days and over	\$241,358	\$232,210	\$220,795	\$221,053	\$221,053	\$211,003	\$211,010	\$213,346	\$223,428	\$282,645	\$259,201	\$222,707
91-120 days	\$27,490	\$12,167	\$14,142	\$30,088	\$30,088	\$20,731	\$19,444	\$58,019	\$21,463	\$20,373	\$21,476	\$19,900
61-90 days	\$33,108	\$51,517	\$51,435	\$38,119	\$38,119	\$57,214	\$125,977	\$35,358	\$59,044	\$45,082	\$53,519	\$43,379
31-60 days	\$142,017	\$190,304	\$147,763	\$143,026	\$143,026	\$266,490	\$214,131	\$180,799	\$163,726	\$142,091	\$191,679	\$127,785
0-30 days	\$1,106,268	\$946,677	\$1,134,531	\$912,477	\$912,477	\$1,401,627	\$1,158,032	\$1,361,650	\$977,992	\$1,066,006	\$1,055,259	\$921,820

OPERATIONS DASHBOARD


**Fuel Master installed
 and operational**



OPERATIONS

	Dec-22		Jan-23		Previous FY Year to Date		Current FY Year to Date	
STAFFING								
Budgeted Staff Vacancies	48	9	48	9			48	9
OVERTIME								
Budget (\$) Actual (\$)	\$ 23,283.33	\$27,499.88	\$ 23,283.33	\$25,627.61			\$ 162,983.33	\$177,444.24
FLEET MANAGEMENT								
# of Vehicles Active per day	40		45				17.14285714	
# of Vehicles Active per month	40		45				17.14285714	
METER PROGRAM								
# of Existing Meters Replaced	4		3				25	
# of Existing Meters Repaired	7		142				320	
# of New Meters Installed	9		3				62	
# of New Laterals Installed	1		1				15	



OPERATIONS

Photo or graphic can be removed, used to fill space

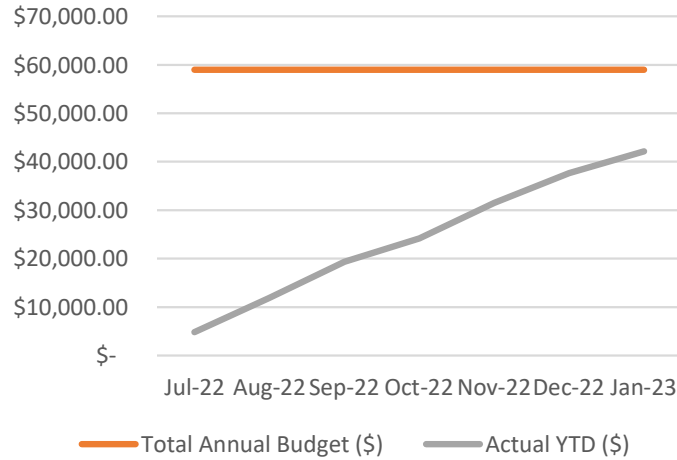
WATER AUDIT				
	Last Month	Current Month	Previous FY YTD	Current FY YTD
Water Produced (Million Gallons)	367.005	374.035		\$ 2,817.10
Customer Meter Reading (Million Gallons)	301.192	298.85		\$ 2,373.33
Water Loss (Million Gallons)	65.813	75.185		\$ 443.77
Water Loss %	18%	20%		16%
Water Loss \$	\$ 81,240.88	\$ 92,809.87		\$ 547,799.80

LEVEL OF SERVICES							
	Last Month		Current Month		Previous FY YTD	Current FY YTD	
# of Work Orders Initiated	342		318			1541	
# of Work Orders Completed	157		284			1291	
# of Mainline Leak Repairs	10		7			71	
# of Service Lateral Leak Repairs	10		15			81	
# of Calls for Service	143		178			1312	
# of Temporary Hydrant Meters Installed	1		3			15	
# One Call Request Received Completed	39	39	46	46		194	194
# of Auto Shop Requests Received Completed	46	36	44	24		291	247
# of Hydrant Hits	1		2			16	



ENGINEERING DASHBOARD

Overtime



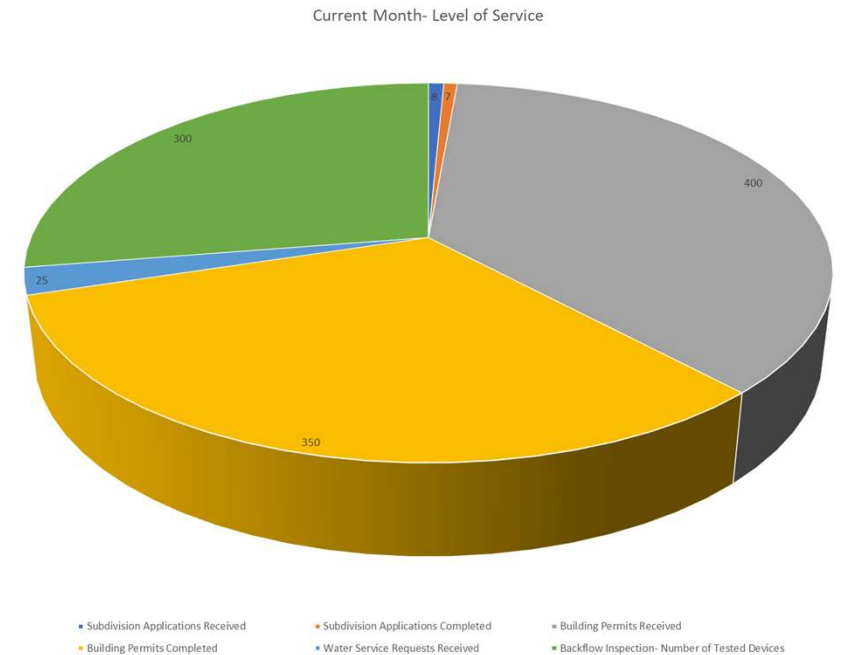
	Last Month		Current Month		Previous FY Year to Date		Current FY Year to Date	
STAFFING								
Budgeted Staff (\$) vs Vacancies (\$)	13	9	13	9			13	9
Professional Services: Total \$ Amount % of Division Budget		0%	\$524,000	17%			\$524,000	17%
OVERTIME								
Budget (\$) Actual (\$)	\$5,000	\$6,000	\$5,000	\$4,000			\$42,000	\$34,000

	Last Month		Current Month		Previous FY Year to Date		Current FY Year to Date		
PROJECT MANAGEMENT									
# of DOW Projects in Design In Construction	18	4	20	4			20	4	
# of DOW Projects completed	0		0				0		
# of Private Projects in Design Design Approved In construction	50	52	14	59	49	18	59	149	18
# of Private Projects Construction Completed	21		20				62		



ENGINEERING

	Last Month		Current Month		Previous FY Year to Date		Current FY Year to Date	
LEVEL OF SERVICE								
Number of Customer Requests Received Completed by Type								
Subdivision Applications, Zoning, Land Use and Variance Permits	8	5	12	19			20	65
ADU/ARU Clearance Applications	4	4	7	7			55	55
Building Permits	108	118	163	116			368	1026
Water Service Requests	23	50	19	26			60	145
Government Records Request	1	1	3	1			7	4
Backflow Inspection # of Devices Tested	77		144				739	
Average Response Time to Customer Requests by Type (Days)								
ADU/ARU Clearance Applications								
Building Permits								
Water Service Requests								



DEPARTMENT OF WATER
County of Kaua‘i

“Water has no substitute – Conserve It!”

MANAGER’S UPDATE

February 16, 2023

Pursuant to Board Policy No. 3

CONTRACTS AWARDED, EXTENDED, AND/OR AMENDED

**1. ELEVENTH AMENDMENT TO CONTRACT NO. 427
JOB NO. 02-14, WP2020 #WK-08, KĀPA‘A HOMESTEADS 0.5 MG STORAGE TANK AND
KĀPA‘A HOMESTEADS 325’ TANKS – TWO 0.5 MG TANKS AND CONNECTING
PIPELINES, WAILUA-KĀPA‘A WATER SYSTEM, KĀPA‘A, KAUA‘I, HAWAII**

FUNDING:

FROM:	Per Manager’s Report No. 23-17 (01/26/23)			
Account No.	10-00-00-30-000			
Account Description:	Water Utility Fund (unrestricted)			
<i>Funds Available</i>	<i>Verified by WWC</i>		\$	182,400.00
TO:				
Account No.	20-20-00-605-118			
Account Description:	FRC Fund (Capital Projects – Expansion – Design)			
Contract No.	427			
Vendor	Bowers+Kubota Consulting, Inc.			
	Contract Amount	\$	256,700.00	
	Amendment No. 1 (Ext to 12/31/09)	\$	354,978.00	
	Amendment No. 2	\$	10,000.00	
	Amendment No. 3	\$	19,000.00	
	Amendment No. 4 (Ext to 12/10/10)	\$	40,450.00	
	Amendment No. 5 (Ext to 12/31/13)	\$	76,200.00	
	Amendment No. 6 (Ext to 06/30/14)	\$	2,300.00	
	Amendment No. 7 (Ext to 05/26/16)	\$	18,100.00	
	Amendment No. 8 (Ext to 06/30/17)	\$	57,630.46	
	Amendment No. 9 (NTP 08/23/17: Pkg “A” 180 days, Pkg “B” 360 days from	\$	160,149.00	

	NTP, both Pkgs excluding Board review time)			
	Amendment No. 10 (Ext to 06/09/22)	\$	44,600.00	
	Total Funds Certified To Date	\$	1,040,107.46	
Amendment No. 11:				
	Update bid documents, NPDES, EA, and Contract Time Extension (Reference Manager's Report No. 23-17)	\$	182,400.00	
	Total Amendment	\$	182,400.00	\$ <182,400.00>
Contract Amount To Date				
		\$	1,222,507.46	

BACKGROUND:

Contract NTP Date: March 15, 2004
 Original Contract End Date: March 09, 2005
 New Contract End Date: 900 days from Execution of the Eleventh Amendment

The Department of Water (DOW) is proposing to construct two new 0.5 MG concrete storage tanks on the same site as the existing Ornellas tank in the Kapa'a Homesteads located near the intersection of Kawaihau Road and Ka'apuni Road. The project's design includes drainage improvements for site storm water and potential tank overflow or washout events. DOW is also constructing a separate project, *Drill and Test Kapa'a Well No. 4* at the same site.

Eleventh Amendment:

The *Kapa'a Homesteads 325' Tanks* project requires updating the design drawings to update the drain line for the tanks and relocate the detention basin to the tanks site. Accordingly, the drainage report needs to be updated and the permits refreshed. The Environmental Assessment (EA) also needs to be updated to reflect the updated drain line. A variance will also be needed in order to install a 6-foot-tall fence on top of a retaining wall. The structural portion of the design also needs updating since the initial scope of work consisted of one concrete tank and the current design includes two 0.5-million-gallon (MG) tanks built on caissons. Additionally, the tank ladders have been replaced with stairs.

**2. SIXTH AMENDMENT TO CONTRACT NO. 533
 JOB NO. 09-01, WP2020 #K-01, #K-12, PHASE II KALAHEO 1111' AND 1222' WATER SYSTEM IMPROVEMENTS, KALAHEO, KAUA'I, HAWAII**

FUNDING:

FROM:	Per Manager's Report No. 23-18		
Account No.	10-20-00-604-010		
Acct Description	WU/Eng/Admin/Capital Outlay – R&R		
Funds Available	Verified by WWC		\$ 82,700.00
TO:			

Account No.	30-20-00-604-105		
Acct Description	BAB/Eng/Admin/Capital Outlay – Expansion/Capital Purchases		
Contract No.	533		
Vendor	Bowers + Kubota Consulting, Inc.		
	Contract Amount	\$ 955,000.00	
	5% Contingency	\$ 0.00	
	First Amendment	\$ 37,900.00	
	Second Amendment	\$ 207,309.00	
	Third Amendment	\$ 38,500.00	
	Fourth Amendment	\$ 101,583.00	
	Fifth Amendment	\$ 0.00	
	Total Funds Certified To Date	1,340,292.00	
Sixth Amendment:			
	Additional Design Funds and Contract Time Extension	\$ 82,700.00	
	Total Amendment	\$ 82,700.00	<\$ 82,700.00>
	Contract Amount To Date	1,422,992.00	

BACKGROUND:

Contract NTP Date: April 13, 2011
 Original Contract End Date: April 11, 2013
 New Contract End Date: 900 days after execution of Sixth Amendment

The DOW is proposing to construct four (4) packages as part of the Kalāheo Water System Improvements Project. Package A is a new Yamada 0.5-million-gallon (MG) concrete tank and Package B is a new Clearwell 0.1 MG concrete storage tank. Package C consists of approximately 11,000 feet of new transmission and distribution lines along Kikala, Pu‘uwai, Po‘ohiwi, and Pu‘ulima Roads. Package D – Yamada Well, includes drilling, testing, and constructing a new production well at the Yamada Tank site, constructing a new booster pump on the Yamada Tank site, and improving the existing booster pump located at the Kalāheo 908’ Tank.

Sixth Amendment:

The NDPES individual permit for the Kalāheo Water System Improvements project has expired. A new NDPES permit for discharges associated with construction-related activities and hydrotesting is required. Bowers + Kubota Consulting will prepare and submit an application to process the Notice of Intent to obtain a General Permit Coverage for the project. Fees associated with the application filing are included in the proposal. Bowers + Kubota Consulting’s contract was originally issued in 2011. The effort to provide services during construction will be greater than previously anticipated. Additional requests for information and submittals are currently anticipated due to the complexity of the tank site designs and water line replacement. Bowers + Kubota Consulting will also request an extension to the Conversation

District Use Permit currently scheduled to expire in September 2023. This amendment will also add 900 calendar days to the contract to oversee the construction activities for this project.

**3. FIRST AMENDMENT TO CONTRACT NO. 721
 JOB NO. 21-01, WATER SYSTEMS INVESTMENT PLAN, KAUA'I, HAWAII**

FUNDING:

Account No.	10-20-10-540-010		
Acct Description	WU/Eng/Admin/Professional Services		
Funds Available	<i>Verified by WWC</i>		\$ 274,870.00
Contract No.	721		
Vendor	Brown and Caldwell		
	Contract Amount	\$ 1,333,831.00	
	5% Contingency	\$ 6,169.00	\$ 6,169.00
	Total Funds Certified To Date	\$ 1,333,831.00	
	Total Funds Available		\$ 281,039.00
First Amendment:			
	Additional funds for SOW and contract time extension	\$ 281,039.00	
	Total Amendment	\$ 281,039.00	<\$ 281,039.00>
	Contract Amount To Date	1,614,870.00	

BACKGROUND:

Contract NTP Date: February 18, 2022
 Original Contract End Date: February 18, 2024
 New Contract End Date: 315 calendar days after execution of the First Amendment

The Water Systems Investment Plan (WSIP) is the update to the previous long-range plan, Water Plan 2020. The WSIP scope of work includes updating the Department of Water's (DOW's) levels of service and planning design criteria, geographic information system (GIS) development, water demand study, hydraulic model development and calibration, system evaluation, climate change and resiliency assessment, capital improvements program (CIP) update, facility reserve charge (FRC) study update and public outreach.

The current amendment adds scope of work for the public outreach, GIS development, and FRC study update.

This amendment will shift from having purely informational public outreach to a more interactive and comprehensive engagement process with the community.

This amendment will also address the limitations of the initial quality of GIS data and the effort to bring it up to current industry standards and usability with the hydraulic model. For instance, DOW's existing GIS data was not spatially accurate and needed to be updated. Additionally, this amendment will include additional trainings, including Engineering and Operations staff so that the GIS system will be used and kept current after this contract is completed.

This amendment will also add additional scope of work to propose an FRC schedule that includes two options, meter fixture charge and fixture units. This amendment will evaluate the FRC based on the updated CIP priority project list instead of the priority project list from Water Plan 2020. This evaluation was initially prioritized and expedited, however, based on DOW's direction to have it reflect the priority project list from this project, this portion of the project has been delayed and work will need to be redone based on updated information.

**4. FIRST AMENDMENT TO CONTRACT NO. 723
 JOB NO. 21-05, AS-NEEDED SURVEYING 2022-2024**

FUNDING:

Account No.	10-20-10-540-010		
Acct Description	WU/Eng/Admin/Professional Services		
Funds Available	<i>Verified by WWC</i>		\$ 20,000.00
Contract No.	723		
Vendor	Esaki Surveying & Mapping, Inc.		
	Contract Amount	\$ 20,000.00	
	5% Contingency	N/A	
	Total Funds Certified To Date	\$ 20,000.00	
First Amendment:			
	Additional funds and contract time extension	\$ 20,000.00	
	Total Amendment	\$ 20,000.00	<\$ 20,000.00>
Contract Amount To Date		\$ 40,000.00	

BACKGROUND:

Contract NTP Date: May 16, 2022
 Original Contract End Date: May 15, 2024
 New Contract End Date: May 15, 2025

The Department of Water (DOW) is proposing to add budgeted funds and contract time for this multi-year contract. This contract allows DOW to efficiently have surveying done as-needed.

5. FIRST AMENDMENT TO CONTRACT NO. 732
Job No. WKK-03 Kilauea Wells No. 1 and 2 MCC, Chlorination Facilities, Kilauea, Kaua'i, Hawai'i

FUNDING:

Account No.	10-21-00-604-157		
Acct Description	Water Utility Fund/Const/R&R & Exp		
Funds Available	<i>Verified by WWC</i>		\$ 300,000.00
Contract No.	732		
Vendor	Bowers + Kubota Consulting		
	Contract Amount	\$ 325,000.00	
	5% Contingency	\$ 16,250.00	\$ 16,250.00
	Total Funds Certified To Date	\$ 341,250.00	
	Total Funds Available		\$ 316,250.00
First Amendment:			
	Additional Funds for Special Inspections	\$ 25,000.00	
	Total Amendment	\$ 25,000.00	<\$ 25,000.00>
	Contract Amount To Date	\$ 350,000.00	
	Fund Balance		\$ 291,250.00

BACKGROUND:

Contract NTP Date: November 14, 2022
 Original Contract End Date: August 4, 2024

The Kilauea Wells No. 1 and 2 MCC, Chlorination Facilities project consists of removing and installing a temporary and permanent motor control center (MCC), demolishing and installing a new roof and other hardening features to the existing pump control building, constructing a new shelter for the existing generator, and associated site grading for the new generator shelter, in accordance with the contract document requirements.

These project improvements are required to address the existing aged MCCs, upgrade the existing pump control building, and adding a shelter for the existing generator.

First Amendment:

The Construction DWG S-001 calls for Special Inspections by an independent testing company, retained by the DOW. The Special Inspections required are the following: soil compaction at foundations, reinforcing bar, concrete placement and taking of concrete test specimens, anchor bolts, expansion anchor

installation, anchors installed using epoxy adhesive, high strength bolting, and masonry construction. When DOW bid out this project. Special Inspection services were not solicited. DOW has asked Bowers+Kubota to cover these inspections under their current CM Contract No. 732.

CONVEYANCE OF WATER FACILITIES \$249,484.79

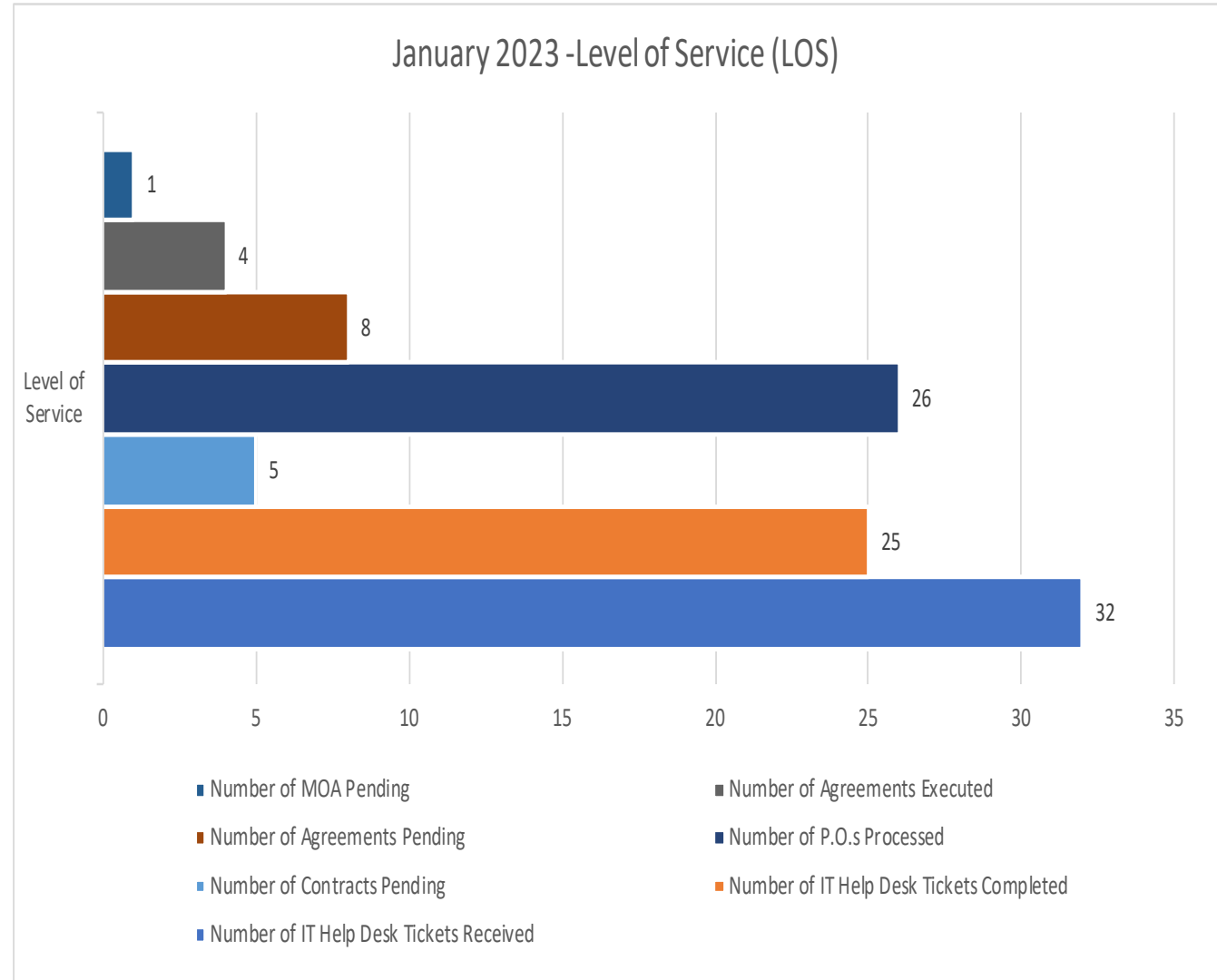
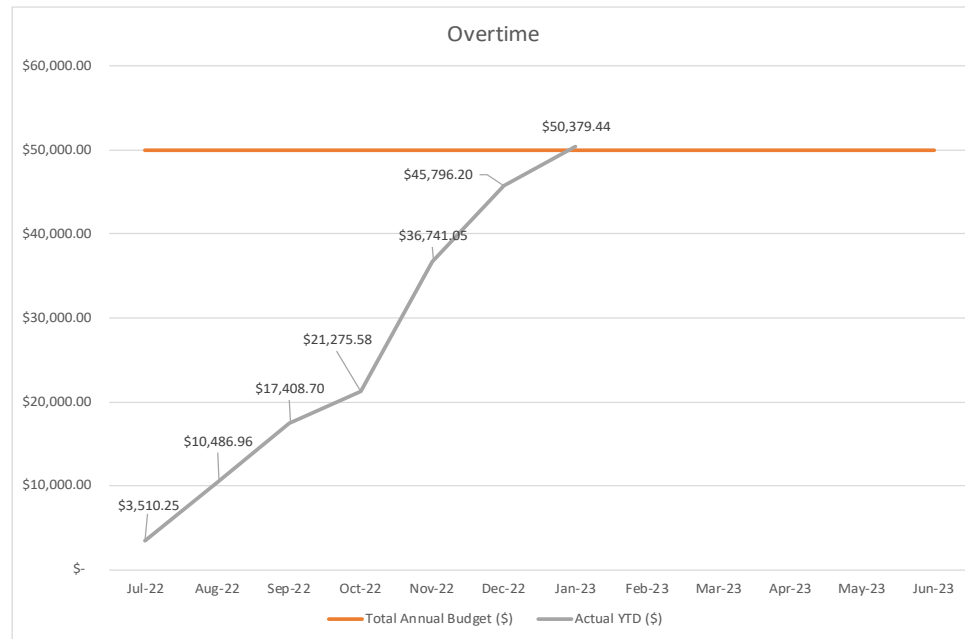
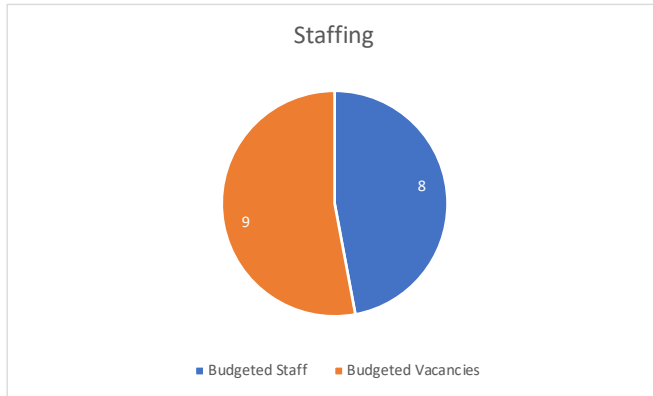
<u>APPLICANT</u>	<u>TMK #</u>	<u>LOCATION</u>
John H. Murray; Patricia V.F. Murray; Jon C. Nixon; Jennifer W. Nixon	2-8-031:184	Koloa
Department of Hawaiian Homelands, Owner; Kauai Island Utility Cooperative, Leesee	4-7-004:002	Kawaihau

PERSONNEL MATTERS

See Attached

Attachments: Administration Division Monthly Dashboard

ADMINISTRATION DASHBOARD



ADMINISTRATION

	Dec-22		Jan-23		Previous FY YTD		Current FY YTD	
STAFFING								
Budgeted Staff vs Vacancies (Admin-HR-IT-PR)	8	9	8	9			8	9
OVERTIME								
Budget (\$) vs Actual (\$)	\$ 4,166.67	\$ 9,055.15	\$ 4,166.67	\$ 4,583.24			\$ 29,166.67	\$ 50,379.44

	Dec-22		Jan-23		Previous FY YTD		Current FY YTD	
LEVEL OF SERVICES								
# of IT Help Desk Tickets Received Completed	22	16	32	25			106	82
# of Legal Claims Outstanding Resolved	2	0	2	0			2	0
# of Contracts Pending Executed	3	1	5	0			5	2
# of Purchase Orders Processed	29		26				77	
# of Agreements Pending Executed	3	5	8	4			13	16
# of MOU MOA Pending	0	1	0	1			0	1
# of MOU MOA Executed	0	0	0	0			0	0
# of Customer Remarks	1		0				2	
# of Customer Compliments	0		1				3	

Note: DOW Dashboard data tracking started November 2022

