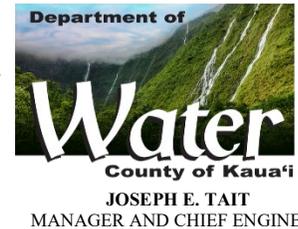


BOARD OF WATER SUPPLY

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

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



REGULAR MONTHLY MEETING NOTICE AND AGENDA

Thursday, March 21, 2024
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/82346512532>

Passcode: 605025

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: 823 4651 2532

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

Scheduled Public Hearing: Monday, April 8, 2024

Next Scheduled Board Meeting: Thursday, April 18, 2024 – 9:30 a.m.

APPROVAL OF AGENDA

MEETING MINUTES

1. Regular Board Meeting – February 15, 2024
2. Executive Session – February 15, 2024
3. Rules Committee Meeting – February 22, 2024
4. Special Board Meeting – February 22, 2024

PUBLIC TESTIMONY

NEW BUSINESS

1. Manager's Report No. 24-09 Discussion and Possible Action on Utility Agreement No. 2430 with the State of Hawai'i Department of Transportation, Highways Division (DOT-Highways) for the Kuamoo Road Emergency Slope Stabilization, Project No. 580A-01-24M
2. Manager's Report No. 24-10 Discussion and Possible Action on Construction Contract Award to Hawaiian Dredging Construction Company, Inc. Job No. 02-14, WP2020 WK-08, Kapa'a Homesteads 325' Tanks, Two 0.5 MG Tanks, Package B – Tanks Package, Kapa'a, Kaua'i, Hawai'i
3. Manager's Report No. 24-11 Discussion and Possible Action on the Approval of the Department of Water's (DOW)'s Supplemental Operating and Capital Budgets Appropriations for Fiscal Year 2024
4. Manager's Report No. 24-12 Discussion and Receipt of the Department of Water's (DOW)'s Financial Statements and Independent Auditor's Report for the Fiscal Year Ended June 30, 2023

STAFF REPORTS

1. Fiscal:
 - a. Monthly dashboard
 - b. Budget Report for February 2024
2. Operations – Monthly dashboard
3. Engineering – Monthly dashboard
4. Administration
 - a. Monthly dashboard
 - b. Public Relations – updates on Public Notices & Announcements, Community Outreach & Education, and Upcoming Events
 - c. Human Resources – updates on Personnel Vacancies
 - d. Information Technology
 - i. Corrective Action Plan updates
5. Manager and Chief Engineer – Required communications to the Board, and update of Department activities

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

1. Quarterly Updates

TOPICS FOR FUTURE BOARD OF WATER SUPPLY MEETING:

1. CIP Update
2. Discussion and Possible Action on Department of Water's DRAFT Proposed Operating and Capital Budgets for FY 2024-2025

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).

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, February 15, 2024

The Board of Water Supply, County of Kaua'i, met in a regular meeting in Līhu'e on Thursday, February 15, 2024 Vice Chair Julie Simonton called the meeting to order at 9:40 a.m. The following Board members were present:

BOARD:

Mr. Tom Shigemoto, *Chair*
Ms. Julie Simonton, *Vice Chair*
Mr. Kurt Akamine
Ms. Micah Finnila
Mr. Ka'aina Hull
Mr. Troy Tanigawa

EXCUSED:

Mr. Larry Dill

Chair Shigemoto felt it necessary to vacate as Chair during the meeting. Pursuant to Board Rules and Robert's Rules of Procedure, Vice-Chair Simonton presided over the meeting.

Quorum was achieved with 6 members present at Roll Call.

ANNOUNCEMENTS

Next Scheduled Meeting: Thursday, March 21, 2024

APPROVAL OF AGENDA

Board member Akamine moved to amend the agenda to move New Business Item 5. to follow staff reports and to request an executive session for the purposes of conferring with our attorney over legal matters, seconded by Mr. Hull; with no objections, motion carried with 6 Ayes.

MEETING MINUTES

1. Regular Board Meeting – January 25, 2024
2. Executive Session – January 25, 2024

The meeting minutes were approved with no objections.

PUBLIC TESTIMONY

None received.

NEW BUSINESS

1. Discussion and Adoption of Resolution No. 24-05 2023 Employee of the Year Jeffery Silva, Operations Division

Chief of Operations Ryan Smith read Resolution No. 24-05 into the record.

2. Discussion and Adoption of Resolution No. 24-06 2023 Employee of the Year, Jonelle Taira-Kakutani, Fiscal Division

Deputy Manager Michael Hinazumi read Resolution No. 24-06 into the record

Board member Akamine moved to adopt Resolution Nos. 24-05 and 24-06, seconded by Mr. Tanigawa; with no objections, motion carried with 6 Ayes.

3. Manager's Report No. 24-07 Discussion and Possible Action for Adoption of Budget Resolution No. 24-07 for the acceptance and expenditure of grant monies from the State of Hawai'i Appropriations Act of 2021 – Act 88, SLH 2021 in the amount of \$2,600,000.00 for the Kapa'a Homesteads Well No. 4

Engineering Division Head Jason Kagimoto provided a summary of the Manager's Report submitted, acknowledging Representative Nakamura and Senator Kouchi for helping them get this funding. This project will help to support some of the projects they are supporting such as Mahelona Hospital and Kapaa Elementary School and Kapaa High School.

Board member Hull asked outside of the legislators' projects, are there inadequate infrastructure areas in Kapaa that this will free up water meter availability. Mr. Kagimoto stated yes, this additional source will help alleviate the current meter restriction in that area. Though they haven't completed the pump capacity testing yet, but they anticipate being able to remove or reduce those meter restrictions. Other areas that have meter restrictions will have to be evaluated on a case-by-case basis depending on the size of a development and location of the system. In response to Board member Tanigawa, Mr. Kagimoto explained that this project has gone out for bid and the qualification proposals are due tomorrow. Because it is a design-build, they are looking at a two-to-three-year timeframe.

Board member Akamine moved to approve Manager's Report No. 24-07, seconded by Mr. Tanigawa; with no objections, motion carried with 6 Ayes.

4. Manager's Report No. 24-08 Discussion and Possible Action on acceptance of certain terms and conditions as stated in the Service Agreement (XiO, Inc.)

Chief of Operations Ryan Smith provided a summary of the Manager's Report submitted, noting that the attorney has approved to form and legality and the CPO has approved, but the Board needs to approve the specific indemnities that are included in the agreement.

Board member Hull moved to approve Manager's Report No. 24-08, seconded by Mr. Akamine; with no objections, motion carried with 6 Ayes.

STAFF REPORTS

1. Fiscal:
 - a. Monthly dashboard
 - b. Budget Report for January 2024

Waterworks Controller Renee Yado provided an overview of the Monthly dashboard and Budget Report for January 2024, pointing out that the overall Net Income year-to-date is at \$2.7 million, thought that may change depending on the outcome of Manager's Report 24-09.

2. Operations – Monthly dashboard

Chief of Operations Ryan Smith provided an overview of the Monthly dashboard submitted and provided an update on the transponder replacements. They are expecting another 1,152 to arrive next week with the larger order of 3,840 to arrive in approximately 3 weeks which totals 5,760. This will help take care of a big chunk of the 9,000 we currently have to replace, and a subsequent order will be placed for the rest. In response to Vice-Chair Simonton Mr. Smith stated these are primarily residential.

3. Engineering – Monthly dashboard

Engineering Division Head Jason Kagimoto provided an overview of the Monthly dashboard submitted, noting that the new Engineering Permit Clerk will start on February 16, which is good for Engineering but will also impact another division as it is an internal hire. He provided an update on the CIP Project Highlights, noting that bids for the Weke, Anae, Mahimahi and He'e Roads Water Main Replacement opens for bid on March 22. They have been coordinating with State DOT, County Public Works Engineering who have projects they are working on in that area.

Manager Tait thanked Engineering and Operations for assisting Fiscal with the transponders, and for spending a huge amount of time out in the field with consultants and contractors for the EPA mandated Lead and Copper Rule Revision activities.

Board member Tanigawa asked what the anticipated duration for the Weke, Anae, Mahimahi and He'e Roads Water Main Replacement to which Mr. Kagimoto stated approximately 2 years with site work anticipated to begin around January of next year.

Mr. Kagimoto provided an overview of the Water Resources and Planning section, highlighting the big manpower push for the LCRR for which they are tentatively scheduled to do field work on the last week of each month for the next 5 months. There is a large amount of pre-work and coordination to be done before the field work even commences which they have been receiving a lot of help from the Microlab and Administration staff and are extremely grateful for. Manager Tait added that this work for the LCRR is in addition to the normal work these staff members usually do.

Board member Hull recalled a previous discussion they had regarding the Lahaina fires and some of the pipes melting because they were PVC. He asked if DOW has any transmission lines that are PVC to which Mr. Kagimoto stated that the current standard is to use ductile iron, but in areas that have a high-ground water table, they look into using PVC because of corrosion issues. Mr. Hull stated as we designate high-hazard fire areas, will there be any analysis done to determine if we can eventually replace any PVC pipes in those high-hazard fire areas. Mr. Kagimoto stated that is a good question that requires further discussion and as these areas are identified, DOW can incorporate that into their plans. The WSIP does have a climate change section that they can incorporate some of these updated studies into. Manager Tait asked if there is a significant amount of PVC that are larger diameter transmission lines, as he recalls most of them are smaller. Mr. Hinazumi stated we don't have too many larger diameter mains; however, we do have PVC and high-density polyethylene pipes in critical infrastructure areas. As part of the Critical Infrastructure Task Force, they are looking into those issues.

4. Administration:

a. Monthly dashboard

Manager Tait provided an overview of the Monthly dashboard submitted, noting overtime continues as we are still only 50% staffed, and are also assisting other divisions with their projects.

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

Public Information Specialist Ani Turner provided an overview of the PR Report submitted and a brief update on PR activities.

c. Human Resources – updates on Personnel Vacancies

d. Information Technology – Monthly update

Information Technology Manager Wayne Takabayashi provided an update on the IT Corrective Action Plan noting that we have new infrastructure to protect us from both our old operating systems and have updated user administration to limit privileges. Security Awareness should be able to launch soon. He has been talking to our counterparts at County as well as in Honolulu who have shared information on their plans, which we are going to follow.

5. Manager and Chief Engineer – Required communications to the Board, and update of Department activities

The meeting recessed at 10:30 a.m.

The meeting reconvened at 10:32 a.m.

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

1. Discussion and Receipt of the Department of Water’s (DOW) Draft Audit Financial Statements and Independent Auditor’s Report for Fiscal Year 2023

TOPICS FOR FUTURE BOARD OF WATER SUPPLY MEETING

NEW BUSINESS (continued)

5. Manager’s Report No. 24-09 Discussion and Possible Action to consider amending the Department of Water, County of Kauai, Rules and Regulations, Part 2 for Water Service Connection, Part 4 for the Furnishing of Water Service in the County of Kauai and Board Policy No. 9 titled, “Meter Reading and Rendering of Bills.”

Vice-Chair Simonton requested to consult with the Board’s legal counsel on this item in Executive Session.

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 (HRS) §92-4(a) and §92-5(a)(4) the purpose of this executive session are to consult with the Board’s attorney on this matter as it pertains to the Board’s powers, duties, privileges, immunities, and liabilities as it relates to:

Manager’s Report No. 24-09 Discussion and Possible Action to consider amending the Department of Water, County of Kauai, Rules and Regulations, Part 2 for Water Service Connection, Part 4 for the Furnishing of Water Service in the County of Kauai and Board Policy No. 9 titled, “Meter Reading and Rendering of Bills.”

The Board entered into Executive Session at 10:35 a.m.

The Board resumed in open session at 11:34 a.m.

In accordance with Act 19 Relating to Public Agency Meetings, Vice-Chair Simonton reported that the Board consulted with the Board's attorney on the Board's legal authority on the Department's billing practices.

Board member Tanigawa moved to refer Manager's Report 24-09 to the Rules Committee, seconded by Mr. Akamine; with no objections, motion carried with 6 Ayes.

ADJOURNMENT

The meeting was adjourned at 11:37 a.m.

Respectfully submitted,

Cherisse Zaima
Commission Support Clerk

DRAFT

MINUTES
RULES COMMITTEE MEETING
February 22, 2024

The Rules Committee of the Board of Water Supply, County of Kauai met on Thursday, February 22, 2024. Committee Chair Kurt Akamine called the meeting to order at 8:35 a.m. Quorum was achieved with **3** members present.

COMMITTEE MEMBERS

Kurt Akamine, *Committee Chair*
Julie Simonton
Troy Tanigawa

PUBLIC TESTIMONY

None.

NEW BUSINESS:

1. *Manager's Report No. 24-09* Discussion and Possible Action to consider amending the Department of Water, County of Kaua'i, Rules and Regulations, Part 2 for Water Service Connection, Part 4 for the Furnishing of Water Service in the County of Kaua'i and Board Policy No. 9 titled, "Meter Reading and Rendering of Bills."

Deputy Manager Michael Hinazumi provided a summary of the Manager's Report submitted. **Committee Member Julie Simonton moved to approve Manager's Report No. 24-09, seconded by Mr. Tanigawa; with no objections, motion carried with 3 Ayes.**

In connection to Manager's Report No. 24-09 and pursuant to Board Rules Part 1, Section 4.6, Chair Akamine proposed the following committee report to the Board:

Findings of Fact:

- The Rules Committee was referred Manager's Report No. 24-09 on February 15, 2024.
- The Rules Committee held a committee meeting on February 22, 2024, to discuss and take action on Manager's Report No. 24-09.
- After listening to and considering the facts and circumstances presented to the committee, the Rules Committee approved Manager's Report No. 24-09.
- The Rules Committee finds that the Department's staff is unduly burdened by the failure of meter equipment, specifically, the failure of transponder equipment.
- The transponder failure now requires staff to manually read the meters rather than relying on automatic meter reads.
- It is impractical for the Department's staff to manually read the meters on a monthly basis.

Conclusion:

The Rules Committee concludes a rule amendment to Rules Part 2, Section 7, is necessary to adequately address the burden placed on Department staff by allowing the Department to render estimated monthly bills.

Recommendation:

The Rules Committee recommends the Board hold a public hearing on an amendment to Rules Part 2, Section 7 to include language allowing estimated billing.”

Committee member Tanigawa asked if the Rules Committee has to agree on specific language to be proposed to the Board which Deputy County Attorney Tyler Saito explained that it is an option the Committee can pursue but it would have to be done at a later meeting. Alternatively, the full Board can consider the specific language.

Committee Member Simonton moved to approve the Rules Committee Report, seconded by Mr. Tanigawa; with no objections, motion carried with 3 Ayes.

ADJOURNMENT

The meeting adjourned at 8:42 a.m.

Respectfully submitted,

Cherisse Zaima
Commission Support Clerk

MINUTES
BOARD OF WATER SUPPLY
SPECIAL BOARD MEETING
Thursday, February 22, 2024

The Board of Water Supply, County of Kaua'i, met in a special meeting in Līhu'e on Thursday, February 22, 2024. Chair Tom Shigemoto called the meeting to order at 9:16 a.m. The following Board members were present:

BOARD:

Mr. Tom Shigemoto, *Chair*
Ms. Julie Simonton, *Vice Chair*
Mr. Kurt Akamine
Ms. Micah Finnila
Mr. Troy Tanigawa

EXCUSED:

Mr. Larry Dill
Mr. Ka'aina Hull

Quorum was achieved with **5** members present at Roll Call.

APPROVAL OF AGENDA

The agenda was approved with no objections.

PUBLIC TESTIMONY

None

NEW BUSINESS

1. Discussion, Deliberation, and Possible Decision-Making on Proposed Declaratory Order Relating to and Recognizing the Controversies and/or Uncertainties Stemming from the Department of Water's Practice of Rendering Bill Adjustments to Customers Following the Replacement of a Failed Transponder

Deputy Manager Michael Hinazumi provided some background on the Department's current billing situation. Back in 2017, Honolulu Board of Water Supply ended their service to the County of Kauai and Maui with handling water bills. When Honolulu BWS were doing our bills, Management at the time did not realize that our rules were not the same as Honolulu's in allowing for estimated billing. DOW's rules did not, and still do not allow for estimated billing which is why this legal Administrative cleanup is before the Board today to help alleviate the burden of the Fiscal staff.

Currently, our rules only allow adjustment of bills when a meter has failed or is found to be inaccurate, or there is a high bill due to an undetected water leak. None of the Board's rules allow the Department to issue "good will" credit to customers when a transponder has failed because a transponder is not a meter and a transponder is not a water leak.

The purpose of this proposed Declaratory Order is to terminate existing controversies and remove uncertainties stemming from past inconsistent adjustments of customer water bills by providing goodwill credits to some, but not all, customers following the replacement of a failed transponder by establishing a uniform and consistent formula the Department to use after a failed transponder is replaced. The formula is already established in the Board's Rules for times when the Department must make bill adjustments when a meter fails or is found to be inaccurate. The equitable

adjustment formula states, “the Department will refund to the consumer the overcharge based on past consumption, for a period not exceeding six months; unless it can be proved that the error was due to some cause, the date of which can be fixed. In this latter case, the overcharge shall be computed back to, but not beyond, such date.”

What does the equitable adjustment formula mean and how will it be applied?

- Once a transponder is replaced and the Department has actual meter readings, the customer’s bill will include the actual consumption from the time the transponder failed and was replaced.
- The Department will then apply this equitable adjustment formula to a customer’s first bill following the transponder replacement prior to sending the customer the bill.
- The look back period for the formula (whether six months or to a date which can be fixed (meaning the look back to determine the average can be more or less than 6 months depending on the circumstances)) begins on the date of the last actual reading the Department has on file prior to the replacement of the transponder.
- The customer’s bill will then be adjusted to show a credit (refund) for the additional amount (overcharge) that falls outside the average amount determined by the equitable formula.

Board member Kurt Akamine moved to Motion to adopt the Proposed Declaratory Order Relating to and Recognizing the Controversies and/or Uncertainties Stemming from the Department of Water’s Practice of Rendering Bill Adjustments to Customers Following the Replacement of a Failed Transponder, seconded by Mr. Tanigawa; with no objections, motion carried with 5 Ayes.

2. *Manager’s Report No. 24-10* Discussion, Deliberation, and Possible Decision-Making on Committee Recommendations to the Board on Proposed Amendments to the Department of Water, County of Kaua‘i, Rules and Regulations (“Rules”), Part 2 for Water Service Connection

Rules Committee Chair Kurt Akamine provided the following Rules Committee Report:
Findings of Fact:

- The Rules Committee was referred Manager’s Report No. 24-09 on February 15, 2024.
- The Rules Committee held a committee meeting on February 22, 2024, to discuss and take action on Manager’s Report No. 24-09.
- After listening to and considering the facts and circumstances presented to the committee, the Rules Committee approved Manager’s Report No. 24-09.
- The Rules Committee finds that the Department’s staff is unduly burdened by the failure of meter equipment, specifically, the failure of transponder equipment.
- The transponder failure now requires staff to manually read the meters rather than relying on automatic meter reads.
- It is impractical for the Department’s staff to manually read the meters on a monthly basis.

Conclusion:

The Rules Committee concludes a rule amendment to Rules Part 2, Section 7, is necessary to adequately address the burden placed on Department staff by allowing the Department to render estimated monthly bills.

Recommendation:

The Rules Committee recommends the Board hold a public hearing on an amendment to Rules Part 2, Section 7 to include language allowing estimated billing.”

Board member Finnila thanked the Rules Committee for putting the report and recommendations together.

Board member Akamine moved to approve the Rules Committee’s recommendation of holding a public hearing on an amendment to Rules Part 2, Section 7 to include language allowing estimated billing consistent with Manager’s Report No. 24-10, seconded by Mr. Tanigawa; with no objections, motion carried with 5 Ayes.

ADJOURNMENT

The meeting was adjourned at 9:52 a.m.

Respectfully submitted,

Cherisse Zaima
Commission Support Clerk

DRAFT

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

NEW

BUSINESS

DEPARTMENT OF WATER

County of Kaua'i

"Water has no Substitute – Conserve It!"

MANAGER’S REPORT No. 24-09

March 21, 2024

Re: Discussion and Possible Action on Utility Agreement No. 2430 with the State of Hawai'i, Department of Transportation, Highways Division (DOT-Highways) for the Kuamoo Road Emergency Slope Stabilization, Project No. 580A-01-24M

RECOMMENDATION:

It is recommended that the Board approve Utility Agreement No. 2430 with the State of Hawai'i, Department of Transportation, Highways Division (DOT-Highways) for the Kuamoo Road Emergency Slope Stabilization, Project No. 580A-01-24M.

FUNDING:

Account No.	10-20-10-540-010		
Acct Description	WU/Eng/Admin/Professional Services		
Funds Available	Verified by WWC		\$ Fiscal to verify
Contract No.	N/A		
Vendor			
	Contract Amount	\$	270,286.05
	5% Contingency	\$	13,514.30
	Total Funds Certified To Date	\$	283,800.35
Amendment:			
Description	\$		
	Total Amendment	\$	
Contract Amount To Date	\$		
Fund Balance		\$	Fiscal to verify

Contract NTP Date: N/A
 Original Contract End Date: N/A
 New Contract End Date if Contract Time Extension: N/A

BACKGROUND:

DOT-Highways needed to address the slope under Kuamoo Road as part of an emergency project in order to protect the road. The Department of Water (DOW) had an existing 6-inch cast iron pipe in this section of the road that was installed in 1936. With the condition of the pipe being unknown, there was concern that the slope stabilization work could damage the pipe and cause a failure of the pipe and potentially a failure of the road. It was determined that the water line should be temporarily bypassed in the area that the slope stabilization was performed. This

would provide sufficient protection of the water line for the road and for our customers. Additionally, it was determined that the existing water line in the area of the work should be replaced due to the pipe's age and it should be sized to meet current standards, including providing for fire flow demand. As part of the emergency project, DOT-Highways contracted the design consultant and contractor to perform the temporary bypass work and the permanent pipe replacement. DOW will be reimbursing DOT-Highways for the cost associated with this work as part of the utility agreement.

The utility agreement also includes the following clauses that require board approval:

- “The COUNTY and STATE shall not be responsible nor liable for any injury, death or damage arising or growing out of the acts or omissions of the other party in their performance of the work covered by this Agreement.”
- “Notwithstanding any such consent by the STATE for abandonment in place, the COUNTY agrees to be responsible for the removal costs and any costs of clean-up and remediation for any pollution or contamination caused by the facilities, if such action becomes necessary in the future.”
- “The COUNTY further agrees to indemnify and hold harmless, the STATE, from any and all liabilities which may arise from the COUNTY's acts or omissions relating to such pipelines or facilities.”

OPTIONS:

Option 1: Approve Manager's Report as recommended.

Pro: DOW will pay for the cost of the project associated with the water line improvements as part of DOT-Highways' emergency project and maintain professional inter-governmental relations.

Con: Since this work was performed under an emergency project, it was an unforeseen cost.

Option 2: Do Not Approve Manager's Report as recommended.

Pro: N/A

Con: Inter-governmental relations with DOT-Highways will be critically impacted.

JK/cz

Attachment: Utility Agreement No. 2430 between State of Hawaii and Department of Water, County of Kauai

DOT 4-204-C
(HWY-RL 7/2007)

UTILITY AGREEMENT NO. 2430

THIS AGREEMENT, made this 1st day of March,
2024, by and between the STATE OF HAWAII, hereinafter called
the "STATE", and DEPARTMENT OF WATER, COUNTY OF KAUAI

hereinafter called the "COUNTY",

WITNESSETH THAT:

WHEREAS, the STATE has scheduled the construction of the
Kuamoo Road Emergency Slope Stabilization, Vicinity of Opaekaa Falls Lookout,
Project No.580A-01-24M
hereinafter referred to as the "Highway Project", and

WHEREAS, the Highway Project will affect the facilities
of the COUNTY which will necessitate the removal and relocation
of said facilities and/or the installation of new facilities,

NOW, THEREFORE, in consideration of the foregoing
premises, it is mutually agreed by the parties hereto that the
removal and relocation of the existing facilities and/or the
installation of new facilities as a result of the Highway
Project shall be paid for by the STATE and performed in
accordance with the following terms and conditions:

1. The COUNTY shall comply with the provisions of
Exhibit A (Revised), which is attached hereto and made a part
hereof, regarding the basis of payment, work procedures,
retention of records, etc.

2. The scope of work and the total estimated cost
for the removal and relocation of the existing facilities and/or

DOT 4-204-C
(HWY-RL 7/2007)

installation of new facilities is the sum of \$ 270,286.05, which scope and estimate, consisting of 1 page(s), are attached hereto as Utility Cost Estimate No. 2430 and made a part hereof.

3. Based on the estimated cost of \$ 270,286.05, the STATE's share is estimated to be \$ 0.00. The actual amount of the STATE's share in the cost of removal and relocation of the existing facilities and/or installation of new facilities will be determined in accordance with the procedures set forth on page 1 of said Utility Cost Estimate and will be based on the actual costs incurred by the parties hereto in removing and relocating the existing facilities and/or installing new facilities of the COUNTY. Reimbursement, if any, by the appropriate party, shall be based on said actual costs.

4. The removal and relocation of the existing facilities and/or installation of new facilities shall be in accordance with those certain plans and drawings dated March, 2024, prepared by the STATE and approved by the COUNTY which are on file in the Highways Division, Department of Transportation, State of Hawaii.

5. The STATE shall perform or cause to be performed all of the work involved in the relocation of the facilities, except as provided for in said Utility Cost Estimate.

6. The COUNTY shall service and maintain and bear all costs of servicing and maintaining its facilities and further agrees not to perform such work from:

- (a) the through traffic lanes and ramps of freeways;
- (b) the through traffic lanes and ramps on other highways during peak traffic hours;
- (c) the through traffic lanes and ramps of other highways during high volume hours, and

DOT 4-204-C
(HWY-RL 7/2007)

(d) the traffic lanes and ramps mentioned in (a), (b) and (c) above, except in emergencies and then only under the condition that such work shall be performed most expeditiously and with least possible interference with free flow of traffic and safe operation of highway facilities.

7. The cost of any future removal, relocation, replacement, reconstruction or adjustment of the utility facilities of the COUNTY, due to construction, reconstruction or maintenance of the highway, shall be borne by the parties hereto in accordance with Section 264-33, Hawaii Revised Statutes, but only to the extent applicable.

8. The COUNTY and the STATE shall not be responsible nor liable for any injury, death or damage arising or growing out of the acts or omissions of the other party in their performance of the work covered by this Agreement.

9. Any facilities of the COUNTY not affected or relocated under this Agreement but which are situated within the aforementioned project and shown on the aforementioned plans may remain in place upon the express condition, however, that paragraphs 6 and 7, above, shall also be applicable to said facilities.

10. When applicable, at its own expense, the COUNTY will be required to remove any of its underground facilities which it constructs, in the event the utility abandons the use of the facilities, unless the STATE consents in writing to allow abandonment in place. Notwithstanding any such consent by the STATE for abandonment in place, the COUNTY agrees to be responsible for the removal costs and any costs of clean-up and remediation for any pollution or contamination caused by the facilities, if such action becomes necessary in the future. The

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COUNTY further agrees to indemnify and hold harmless, the STATE, from any and all liabilities which may arise from the COUNTY'S acts or omissions relating to such pipelines or facilities.

11. Pursuant to regulations and requirements of the Federal Highway Administration (FHWA) and Hawaii state law, the COUNTY is prohibited from assigning or subleasing any facilities that are allowed to be abandoned in place in the highway right-of-way without the express permission of, and arrangements with the STATE or unless such assignment or sublease is required by law. The COUNTY shall give the STATE ten (10) days prior written notice of any use by third parties of the COUNTY'S facilities that the COUNTY is required by law to allow. Any unauthorized use of the COUNTY'S facilities by any other utility or third party is strictly prohibited.

12. This Agreement shall be binding upon the parties hereto, their successors and assigns, and expired service life N/A applicable to the work to be performed hereunder because N/A

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(HWY-RL 7/2007)

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed by their duly authorized officers as of the day and year first above written.

STATE OF HAWAII

By _____
Its Director of Transportation

RECOMMENDED FOR APPROVAL

By _____
Print Name _____
Its _____

BOARD OF WATER SUPPLY,
COUNTY OF KAUAI

By _____
Print Name _____
Its _____

APPROVED AS TO FORM AND LEGALITY:

Attorney for COUNTY

(HWY-RL 9/2002)

BASIS OF PAYMENTS, RECORDS AND ACCOUNTS

EXHIBIT A (REVISED)

1. The cost of the relocation shall be based on the prevailing rates and/or unit prices for labor, equipment and material, plus a fixed percentage of such costs for indirect costs and overhead, at the time the relocation is commenced and in lieu of the rates indicated in the cost estimate. Such rates, unit prices and percentages shall be subject to the prior approval of the State, and shall be based on actual cost incurred by the County for the relocation of its facilities.

2. The State shall give the County 0 working days notice to proceed with its portion of the work. The County shall coordinate its work with the State's contractor and shall not unreasonably interfere with or delay the State's highway project. The County will also notify the State's project engineer 0 day(s) prior to the commencement of the relocation of said facilities by the County. The County estimates that it will complete its portion of the work within 60 working days.

3. A final statement of cost shall be submitted by the County in the same general form as the cost estimate within 90 days

4. The records and accounts of the County and its contractor, pertaining to the work performed under the terms of this Agreement, shall be retained for a period of not less than three (3) years from the date of the final payment of Federal funds to the State for said project and shall be available for inspection and audit by representatives of the Department of Transportation, State of Hawaii, and the United States Federal Highway Administration at the respective offices of the County and the contractor in Honolulu.

5. Where applicable, the terms of this Agreement, including the final statement of cost and payment thereof, shall be subject to the amended provisions of the Code of Federal Regulations 23 CFR 140, 23 CFR 645 and Section 264-33 of the Hawaii Revised Statutes, which are incorporated herein by reference and made a part of this agreement.

6. Notwithstanding any reference to said provision of the Code of Federal Regulations 23 CFR 140 and 23 CFR 645 it is expressly agreed that the State shall bear the entire cost of relocating said facilities.

7. The County's existing facilities shall remain in place until the proposed site is ready and available for installation of the new facilities.

DEPARTMENT OF WATER

County of Kaua'i

"Water has no Substitute – Conserve It!"

MANAGER'S REPORT No. 24-10

March 21, 2024

Re: Discussion and Possible Action on Construction Contract Award to Hawaiian Dredging Construction Company, Inc. Job No. 02-14, WP2020 WK-08, Kapa'a Homesteads 325' Tanks, Two 0.5 MG Tanks, Package B – Tanks Package, Kapa'a, Kaua'i, Hawai'i

RECOMMENDATION:

It is recommended that the Board approve a construction contract with Hawaiian Dredging Construction Company, Inc. in the amount of \$23,347,000.00.

FUNDING:

<u>Account No.</u>	<u>Account Description</u>	<u>Amount</u>
10-20-00-604-116	WU-Eng WK-08, Kapaa Homesteads 2-0.5MG Tanks	\$ 3,750,000.00
30-20-00-605-116	BAB-Eng WK-08, Kapaa Homesteads 2-0.5MG Tanks	3,500,000.00
40-20-00-605-116	SAG-Eng WK-08, Kapaa Homesteads 2-0.5MG Tanks	7,250,000.00
		<u>\$ 14,500,000.00</u>
60-20-00-605-116	(NEW) SRF-Eng WK-08, Kapaa Homesteads 2-0.5MG Tanks	\$ 5,200,000.00
10-20-10-540-010	WU-Eng Admin-Professional Services-General	952,000.00 (defund)
10-20-00-604-148	WU-Eng Kuhio Highway (Hardy-Oxford) 16' Main Replacement	1,795,000.00 (defund)
20-20-00-605-018	FRC-Eng H-08, Drill & Test Hanalei Well No. 2	200,000.00 (defund)
20-20-00-605-118	FRC-Eng WK-39, Drill & Develop Kapaa Homesteads Well No. 4	700,000.00 (defund)
		<u>\$ 8,847,000.00</u>
	Total Contract Amount	\$ 23,347,000.00

Contract #: TBD
Vendor: Hawaiian Dredging Construction Company, Inc.

Total Funds Certified \$ 23,347,000.00

Contract NTP Date: TBD
Original Contract End Date: 900 calendar days from NTP
New Contract End Date if Contract Time Extension: N/A

BACKGROUND:

The Kapa'a Homesteads 325' Tanks, Two 0.5 MG Tanks, Package B – Tanks Package project consists of the construction of two (2) 0.5 million gallon storage tanks and approximately 1,700 linear feet of ductile iron pipeline (16" and 12") and associated appurtenances in accordance with the construction document requirements.

Construction bids were opened and reviewed on August 24, 2023 as follows:

Earthworks Pacific, Inc. (non-responsive)	\$22,256,270.00
Hawaiian Dredging Construction Company, Inc. (responsive)	\$23,347,000.00
Kiewit Infrastructure West Co. (responsive)	\$26,564,000.00

The Engineer's estimate for the project work was \$17,500,000.00. The project is funded in part by a state appropriation of \$7,250,000.00 with a 100% match of \$7,250,000.00 and requires encumbrance no later than June 30, 2024. The project was procured via the low bid process and the apparent low bidder's proposal was deemed non-responsive. The second low bidder's proposal was deemed responsive and acceptable.

OPTIONS:

Option 1: Approve Manager's Report as recommended.

Pro: DOW will move forward with the construction of the project and will use the state appropriated funds.

Con: Construction requires using additional funding not set aside for the project due to the cost of the responsive low bid.

Option 2: Do Not Approve Manager's Report as recommended.

Pro: DOW will be able to use funds not set aside for the project as budgeted.

Con: DOW will not move forward with the construction of the project and the state appropriated funds will lapse. Additionally, it is likely that the cost of the construction of the project will increase if the Board decides to construct it at a future date.

JK/crz

DEPARTMENT OF WATER

County of Kaua'i

"Water has no Substitute – Conserve It!"

MANAGER'S REPORT No. 24-11

March 21, 2024

Re: Discussion and Possible Action on the Approval of the Department of Water (DOW)'s Supplemental Operating and Capital Budgets appropriations for Fiscal Year 2024

RECOMMENDATION:

It is recommended that the Board grant approval to the Department to perform the annual encumbrance rollover from Fiscal Year 2023 (July 2022 – June 2023) to Fiscal Year 2024 (July 2023 – June 2024).

BACKGROUND:

The Board approved the Department's Operating and Capital Outlay Budgets for Fiscal Year 2024 on May 19, 2023.

In addition to the approved Operating and Capital Outlay budgets, the Department requests Board approval to rollover outstanding purchase order (PO) balances from FY 2023 to the FY 2024 Operating and Capital Outlay budgets. These PO Rollovers are existing encumbrances of contracts and miscellaneous purchase orders for materials and services as of June 30, 2023. The outstanding PO list is attached.

If approved, the FY 2024 budget will be increased as follows:

Operating Expenses – Water Utility	\$ 6,185,968.88
Capital Outlay:	<u>\$36,170,809.21</u>
Water Utility	\$11,746,514.16
Facility Reserve Charge (FRC)	\$ 1,150,032.68
Build America Bonds (BAB)	\$ 1,326,027.99
State Allotments Appropriations (SAF)	\$13,477,103.89
State Revolving Fund (SRF)	\$ 8,471,130.49
Total Purchase Order encumbrance rollover	<u>\$42,356,778.09</u>

OPTIONS:

Option 1: Approve Manager's Report as recommended.

Pro: The Department will be able to continue the implementation of its ongoing programs and projects.

Con: None known.

Option 2: Do not approve the Supplemental Budget for Fiscal Year 2024.

Pro: None known.

Con: The Department is still obligated to fulfill its contractual obligations for the remaining terms of the contract.

RY/cz

Attachment: Supplemental Budget FY 2024 Year End Encumbrance Increase Report FY 2023 PO Rollovers

Supplemental Budget - FY 2024 (July 2023 - June 2024)
 Year End Encumbrance Increase Report
 FY 2023 PO Rollovers

FY 2024 Budget Increase for Purchase Order (PO) Rollovers from FY 2023 totaling \$42,356,778.09			Sources of Funds					
			Operating Expense: Water Utility	Capital Outlay: Water Utility	Capital Outlay: Facility Reserve Charge (FRC)	Capital Outlay: Build America Bonds (BAB)	Capital Outlay: State Allotments Appropriations (SAF)	Capital Outlay: State Revolving Fund (SRF)
Account Number	Encumbrance 6/30/2023	Account Description						
10-01-10-540-010	36,730.33		36,730.33					
PO0004964	4,469.09	WU-Adm-Adm-Professional Services-General						
PO0005404	3,020.94	WU-Adm-Adm-Professional Services-General						
PO0005407	25,000.00	WU-Adm-Adm-Professional Services-General						
PO0005431	3,640.30	WU-Adm-Adm-Professional Services-General						
PO0005441	600.00	WU-Adm-Adm-Professional Services-General						
10-01-10-542-010	5,387.06		5,387.06					
PO0005125	5,091.06	WU-Adm-Adm-Public Relations-General						
PO0005222	296.00	WU-Adm-Adm-Public Relations-General						
10-01-10-544-000	2,000.00		2,000.00					
PO0005283	2,000.00	WU-Adm-Adm-Freight and Postage						
10-01-10-551-000	12,532.35		12,532.35					
PO0005298	12,177.45	WU-Adm-Adm-Utility Services						
PO0005299	354.90	WU-Adm-Adm-Utility Services						
10-01-10-563-000	7,863.34		7,863.34					
PO0005355	7,863.34	WU-Adm-Adm-Operating Supplies						
10-02-00-604-999	52,660.74			52,660.74				
PO0004956	25,428.91	WU-IT-RandR Capital Purchases						
PO0005091	12,488.75	WU-IT-RandR Capital Purchases						
PO0005253	12,094.10	WU-IT-RandR Capital Purchases						
PO0005477	2,648.98	WU-IT-RandR Capital Purchases						
10-02-10-540-010	351,542.07		351,542.07					
PO0005057	6,270.00	WU-IT-Adm-Professional Services-General						
PO0005382	106,844.57	WU-IT-Adm-Professional Services-General						
PO0005409	10,456.00	WU-IT-Adm-Professional Services-General						
PO0005573	227,971.50	WU-IT-Adm-Professional Services-General						
10-02-10-543-000	9,248.70		9,248.70					
PO0004750	146.88	WU-IT-Adm-Communication Services						
PO0005105	7,195.00	WU-IT-Adm-Communication Services						
PO0005193	1,110.01	WU-IT-Adm-Communication Services						
PO0005237	47.00	WU-IT-Adm-Communication Services						
PO0005303	523.73	WU-IT-Adm-Communication Services						
PO0005306	45.58	WU-IT-Adm-Communication Services						
PO0005307	180.50	WU-IT-Adm-Communication Services						
10-02-10-545-000	1,729.46		1,729.46					
PO0004933	983.32	WU-IT-Adm-Rentals and Leases						
PO0005302	746.14	WU-IT-Adm-Rentals and Leases						
10-02-10-561-000	171,720.13		171,720.13					
PO0004938	550.95	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0004939	3,613.60	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0005057	2,703.43	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0005076	1,544.86	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0005180	69.90	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0005218	0.01	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0005252	4,630.81	WU-IT-Adm-Repairs and Maint-Non Water System						

Supplemental Budget - FY 2024 (July 2023 - June 2024)
Year End Encumbrance Increase Report
FY 2023 PO Rollovers

FY 2024 Budget Increase for Purchase Order (PO) Rollovers from FY 2023 totaling \$42,356,778.09			Sources of Funds					
			Operating Expense: Water Utility	Capital Outlay: Water Utility	Capital Outlay: Facility Reserve Charge (FRC)	Capital Outlay: Build America Bonds (BAB)	Capital Outlay: State Allotments Appropriations (SAF)	Capital Outlay: State Revolving Fund (SRF)
Account Number	Encumbrance 6/30/2023	Account Description						
PO0005255	630.22	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0005338	62.70	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0005396	83,495.14	WU-IT-Adm-Repairs and Maint-Non Water System						
PO0005423	74,418.51	WU-IT-Adm-Repairs and Maint-Non Water System						
10-02-10-563-000	15,305.16		15,305.16					
PO0004938	726.00	WU-IT-Adm-Operating Supplies						
PO0004939	6,604.00	WU-IT-Adm-Operating Supplies						
PO0004956	51.02	WU-IT-Adm-Operating Supplies						
PO0004983	33.80	WU-IT-Adm-Operating Supplies						
PO0004995	1,265.71	WU-IT-Adm-Operating Supplies						
PO0005075	2,200.00	WU-IT-Adm-Operating Supplies						
PO0005091	532.72	WU-IT-Adm-Operating Supplies						
PO0005168	19.96	WU-IT-Adm-Operating Supplies						
PO0005181	582.36	WU-IT-Adm-Operating Supplies						
PO0005239	0.59	WU-IT-Adm-Operating Supplies						
PO0005405	3,289.00	WU-IT-Adm-Operating Supplies						
10-10-40-540-010	8,758.00		8,758.00					
PO0004723	6,669.00	WU-Qual-Purif-Professional Services-General						
PO0005013	2,089.00	WU-Qual-Purif-Professional Services-General						
10-10-40-544-000	1,144.47		1,144.47					
PO0005291	1,144.47	WU-Qual-Purif-Freight and Postage						
10-10-40-561-000	4,212.98		4,212.98					
PO0005412	2,106.49	WU-Qual-Purif-Repairs and Maint-Non Water System						
PO0005518	2,106.49	WU-Qual-Purif-Repairs and Maint-Non Water System						
10-10-40-563-000	1,222.45		1,222.45					
PO0005024	561.86	WU-Qual-Purif-Operating Supplies						
PO0005517	0.20	WU-Qual-Purif-Operating Supplies						
PO0005566	660.39	WU-Qual-Purif-Operating Supplies						
10-20-00-604-001	9,407.62			9,407.62				
PO0004335	9,407.62	WU-Eng-ALLR-17-10-KW-07 Paua Valley Tank Repair						
10-20-00-604-009	127,489.00			127,489.00				
PO0005561	119,283.00	WU-Eng-ALLR-Hanapepe Stream Crossing						
PO0005563	8,206.00	WU-Eng-ALLR-Hanapepe Stream Crossing						
10-20-00-604-010	44,832.18			44,832.18				
PO0005561	44,832.18	WU-Eng-CIPR-23-14 Wailua Hmsteads 538 1.0 MG Tank						
10-20-00-604-136	100,000.00			100,000.00				
PO0005522	81,000.00	Job 12-01 H-05 Weke Anae Hee 6-8IN Mains						
PO0005563	19,000.00	Job 12-01 H-05 Weke Anae Hee 6-8IN Mains						
10-20-00-604-138	90,795.00			90,795.00				
PO0005555	90,795.00	WU-Eng-69%R-11-07 HE-03 Hanapepe & Koloa Well MCC						
10-20-00-604-147	210,599.65			210,599.65				
PO0005556	44,827.65	WU-Eng-ALLR-23-07 Rehabilitate Puupilo Steel Tank						
PO0005563	165,772.00	WU-Eng-ALLR-23-07 Rehabilitate Puupilo Steel Tank						
10-20-00-604-148	139,257.30			139,257.30				
PO0003601	94,110.30	WU-Eng-Job 18-3-Kuhio Hwy Hardy-Oxford 16IN Main						

Supplemental Budget - FY 2024 (July 2023 - June 2024)
Year End Encumbrance Increase Report
FY 2023 PO Rollovers

FY 2024 Budget Increase for Purchase Order (PO) Rollovers from FY 2023 totaling \$42,356,778.09			Sources of Funds					
			Operating Expense: Water Utility	Capital Outlay: Water Utility	Capital Outlay: Facility Reserve Charge (FRC)	Capital Outlay: Build America Bonds (BAB)	Capital Outlay: State Allotments Appropriations (SAF)	Capital Outlay: State Revolving Fund (SRF)
Account Number	Encumbrance 6/30/2023	Account Description						
PO0005560	45,147.00	WU-Eng-Job 18-3-Kuhio Hwy Hardy-Oxford 16IN Main						
10-20-00-604-149	448,078.27			448,078.27				
PO0005560	448,078.27	WU-Eng-56%R-Job 23-03 Kuhio Hwy Papaloa to Waikaea						
10-20-00-604-157	66,863.70			66,863.70				
PO0002836	66,863.70	WU-Eng-16-4-WKK-03-Kilauea Wells MCC Rehab						
10-20-00-604-160	346,218.15			346,218.15				
PO0003581	346,218.15	Job 18-02 Islandwide Rehabilitation of Tanks						
10-20-00-604-164	229,632.00			229,632.00				
PO0004577	229,632.00	WU-Eng-Job. 18-9 Makaleha Tunnel						
10-20-00-604-177	184,370.00			184,370.00				
PO0005563	184,370.00	WU-23-02 WK-34, Kuamoo Rd 8" Main Replace (6,500')						
10-20-00-605-139	125,200.00			125,200.00				
PO0002624	125,200.00	WU-Eng-ALLE-02-11 M-02 100K Tank & Pipeline Moloaa						
10-20-10-540-010	2,266,280.20		2,266,280.20					
PO0002836	25,116.10	WU-Eng-Adm-Professional Services-General						
PO0003149	48,460.83	WU-Eng-Adm-Professional Services-General						
PO0004301	12,016.68	WU-Eng-Adm-Professional Services-General						
PO0004577	11,636.00	WU-Eng-Adm-Professional Services-General						
PO0004593	80,039.82	WU-Eng-Adm-Professional Services-General						
PO0004705	1,571.00	WU-Eng-Adm-Professional Services-General						
PO0005197	18,617.80	WU-Eng-Adm-Professional Services-General						
PO0005383	7,862.50	WU-Eng-Adm-Professional Services-General						
PO0005384	4,729.94	WU-Eng-Adm-Professional Services-General						
PO0005387	22,000.00	WU-Eng-Adm-Professional Services-General						
PO0005388	275,780.64	WU-Eng-Adm-Professional Services-General						
PO0005430	20,340.00	WU-Eng-Adm-Professional Services-General						
PO0005461	24,089.00	WU-Eng-Adm-Professional Services-General						
PO0005520	253,945.00	WU-Eng-Adm-Professional Services-General						
PO0005521	460,074.89	WU-Eng-Adm-Professional Services-General						
PO0005562	1,000,000.00	WU-Eng-Adm-Professional Services-General						
10-20-10-563-000	895.01		895.01					
PO0005143	895.00	WU-Eng-Adm-Operating Supplies						
PO0005456	0.01	WU-Eng-Adm-Operating Supplies						
10-21-00-604-001	1,138,851.01			1,138,851.01				
PO0004404	1,138,851.01	Job 17-10 KW-07 Paua Valley Tank Repair						
10-21-00-604-029	3,060,005.95			3,060,005.95				
PO0005257	1,020,005.95	WU-Cns-44%R-09-01 Yamada Tank Clearwell, Conn Pipe						
PO0005258	2,040,000.00	WU-Cns-44%R-09-01 Yamada Tank Clearwell, Conn Pipe						
10-21-00-604-146	217,103.74			217,103.74				
PO0003576	217,103.74	Job 15-07 HE-01 HE-10 Kaunualii Hwy 16" Main Boost						
10-21-00-604-157	152,270.76			152,270.76				
PO0005525	152,270.76	Job 16-4 WKK-03-Kilauea Wells MCC Rehab						
10-21-00-604-167	238,112.58			238,112.58				
PO0004976	238,112.58	WU-CM-R&R-Job 11-9 Kukuilono Tank Demo						
10-21-00-604-171	32,899.55			32,899.55				

Supplemental Budget - FY 2024 (July 2023 - June 2024)
 Year End Encumbrance Increase Report
 FY 2023 PO Rollovers

FY 2024 Budget Increase for Purchase Order (PO) Rollovers from FY 2023 totaling \$42,356,778.09			Sources of Funds					
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Account Number	Encumbrance 6/30/2023	Account Description						
PO0005574	32,899.55	WU-Const-R&R-Tank Remediation Repair						
10-21-00-605-017	2,990,220.00			2,990,220.00				
PO0003577	2,990,220.00	Job 16-02 PLH-35B Kapaia Cane Haul Rd 18" Main						
10-21-00-605-118	194,120.62			194,120.62				
PO0005397	194,120.62	Job 02-14 WK39 WK08 Kapaa Hmstd Well 4; Pkg A Well						
10-21-00-605-153	4,020.00			4,020.00				
PO0005221	4,020.00	WU/Cons/Exp/Job 15-08-HW-11-Haena 0.2MG Tank						
10-21-10-540-010	1,959,602.42		1,959,602.42					
PO0002835	279,570.40	WU-CM-Adm-Professional Services-General						
PO0004461	700,000.00	WU-CM-Adm-Professional Services-General						
PO0005044	11,412.38	WU-CM-Adm-Professional Services-General						
PO0005260	968,619.64	WU-CM-Adm-Professional Services-General						
10-21-10-563-000	895.00		895.00					
PO0005145	895.00	WU-CM-Adm Operating Supplies						
10-22-10-540-010	843,172.38		843,172.38					
PO0004217	102,581.40	WU-WRP-Adm-Professional Services-General						
PO0005038	26,160.00	WU-WRP-Adm-Professional Services-General						
PO0005146	668,255.11	WU-WRP-Adm-Professional Services-General						
PO0005235	46,175.87	WU-WRP-Adm-Professional Services-General						
10-30-20-540-010	1,778.96		1,778.96					
PO0005288	1,778.96	WU-Bill-Collection-Professional Services-General						
10-30-20-563-000	844.00		844.00					
PO0005192	844.00	WU-Bill-Collection-Operating Supplies						
10-31-10-540-010	133,257.79		133,257.79					
PO0004959	124,357.79	WU-Acc-Adm-Professional Services-General						
PO0005246	1,000.00	WU-Acc-Adm-Professional Services-General						
PO0005284	3,700.00	WU-Acc-Adm-Professional Services-General						
PO0005559	4,200.00	WU-Acc-Adm-Professional Services-General						
10-31-10-562-000	200.94		200.94					
PO0005157	144.17	WU-Acct-Adm-Office Supplies						
PO0005191	-	WU-Acct-Adm-Office Supplies						
PO0005289	56.77	WU-Acct-Adm-Office Supplies						
10-40-00-604-170	5,238.75			5,238.75				
PO0005200	5,238.75	WU/Ops/R&R/Meter Replacement Program						
10-40-00-604-999	1,479,817.47			1,479,817.47				
PO0004566	6,400.00	WU-Ops-RandR Capital Purchases						
PO0004831	7,839.09	WU-Ops-RandR Capital Purchases						
PO0005054	26,134.06	WU-Ops-RandR Capital Purchases						
PO0005090	58,534.00	WU-Ops-RandR Capital Purchases						
PO0005185	22.85	WU-Ops-RandR Capital Purchases						
PO0005314	0.02	WU-Ops-RandR Capital Purchases						
PO0005316	328.06	WU-Ops-RandR Capital Purchases						
PO0005317	17,819.24	WU-Ops-RandR Capital Purchases						
PO0005319	91.04	WU-Ops-RandR Capital Purchases						
PO0005320	1,217.83	WU-Ops-RandR Capital Purchases						

Supplemental Budget - FY 2024 (July 2023 - June 2024)
 Year End Encumbrance Increase Report
 FY 2023 PO Rollovers

FY 2024 Budget Increase for Purchase Order (PO) Rollovers from FY 2023 totaling \$42,356,778.09			Sources of Funds					
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Account Number	Encumbrance 6/30/2023	Account Description						
PO0005340	7,024.43	WU-Ops-RandR Capital Purchases						
PO0005353	0.01	WU-Ops-RandR Capital Purchases						
PO0005394	0.01	WU-Ops-RandR Capital Purchases						
PO0005452	0.11	WU-Ops-RandR Capital Purchases						
PO0005479	395,287.80	WU-Ops-RandR Capital Purchases						
PO0005493	588,344.06	WU-Ops-RandR Capital Purchases						
PO0005502	4,699.12	WU-Ops-RandR Capital Purchases						
PO0005527	198.73	WU-Ops-RandR Capital Purchases						
PO0005529	794.85	WU-Ops-RandR Capital Purchases						
PO0005538	0.08	WU-Ops-RandR Capital Purchases						
PO0005539	403.00	WU-Ops-RandR Capital Purchases						
PO0005544	5,544.67	WU-Ops-RandR Capital Purchases						
PO0005546	13.24	WU-Ops-RandR Capital Purchases						
PO0005547	787.86	WU-Ops-RandR Capital Purchases						
PO0005549	2,284.15	WU-Ops-RandR Capital Purchases						
PO0005550	25,747.80	WU-Ops-RandR Capital Purchases						
PO0005557	4,823.53	WU-Ops-RandR Capital Purchases						
PO0005571	14,649.21	WU-Ops-RandR Capital Purchases						
PO0005572	193,228.62	WU-Ops-RandR Capital Purchases						
PO0005575	117,600.00	WU-Ops-RandR Capital Purchases						
10-40-00-605-999	58,450.12			58,450.12				
PO0005088	58,450.00	WU-Ops-Expansion Capital Purchases						
PO0005473	0.12	WU-Ops-Expansion Capital Purchases						
10-40-30-563-000	60.20		60.20					
PO0005372	60.20	WU-Ops-Source-Operating Supplies						
10-40-30-565-000	27,978.15		27,978.15					
PO0005275	2,956.93	WU-Ops-Source-Bulk Water Purchase						
PO0005278	25,021.22	WU-Ops-Source-Bulk Water Purchase						
10-40-40-563-000	37,845.82		37,845.82					
PO0005269	37,845.82	WU-Ops-Purif-Operating Supplies						
10-40-50-560-000	177,833.64		177,833.64					
PO0005481	51.64	Wu-Operations-P&P-Repairs & Maint W/S						
PO0005516	177,782.00	Wu-Operations-P&P-Repairs & Maint W/S						
10-40-50-563-000	4,333.50		4,333.50					
PO0005226	4,333.50	WU-Ops-PowerAndPump-Operating Supplies						
10-40-60-545-000	2,809.00		2,809.00					
PO0005564	2,809.00	WU-Ops-T andD-Rentals and Leases						
10-40-60-560-000	3,764.00		3,764.00					
PO0005123	3,764.00	WU-Ops-T andD-Repairs and Maintenance-Water System						
10-40-60-561-000	70,583.21		70,583.21					
PO0004960	2,544.01	Wu-Ops-T andD-Repairs and Maint-Non Water System						
PO0005132	5,333.87	Wu-Ops-T andD-Repairs and Maint-Non Water System						
PO0005189	2,451.33	Wu-Ops-T andD-Repairs and Maint-Non Water System						
PO0005263	397.33	Wu-Ops-T andD-Repairs and Maint-Non Water System						
PO0005264	43.64	Wu-Ops-T andD-Repairs and Maint-Non Water System						

Supplemental Budget - FY 2024 (July 2023 - June 2024)
Year End Encumbrance Increase Report
FY 2023 PO Rollovers

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Account Number	Encumbrance 6/30/2023	Account Description							
PO0005280	10,945.90	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005321	30,941.93	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005351	2,117.38	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005377	523.56	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005403	19.51	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005410	187.60	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005414	215.50	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005422	83.37	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005466	303.51	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005491	1,219.96	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005497	12,380.31	Wu-Ops-T andD-Repairs and Maint-Non Water System							
PO0005504	874.50	Wu-Ops-T andD-Repairs and Maint-Non Water System							
10-40-60-563-000	13,854.47		13,854.47						
PO0005186	3,223.46	WU-Ops-T andD-Operating Supplies							
PO0005229	488.18	WU-Ops-T andD-Operating Supplies							
PO0005277	112.22	WU-Ops-T andD-Operating Supplies							
PO0005293	23.82	WU-Ops-T andD-Operating Supplies							
PO0005341	25.10	WU-Ops-T andD-Operating Supplies							
PO0005357	4.52	WU-Ops-T andD-Operating Supplies							
PO0005358	0.07	WU-Ops-T andD-Operating Supplies							
PO0005371	2,132.39	WU-Ops-T andD-Operating Supplies							
PO0005392	0.02	WU-Ops-T andD-Operating Supplies							
PO0005410	8.84	WU-Ops-T andD-Operating Supplies							
PO0005432	8.80	WU-Ops-T andD-Operating Supplies							
PO0005438	135.64	WU-Ops-T andD-Operating Supplies							
PO0005453	79.16	WU-Ops-T andD-Operating Supplies							
PO0005458	150.50	WU-Ops-T andD-Operating Supplies							
PO0005469	2,022.88	WU-Ops-T andD-Operating Supplies							
PO0005476	99.89	WU-Ops-T andD-Operating Supplies							
PO0005487	40.40	WU-Ops-T andD-Operating Supplies							
PO0005492	367.51	WU-Ops-T andD-Operating Supplies							
PO0005498	0.38	WU-Ops-T andD-Operating Supplies							
PO0005510	704.02	WU-Ops-T andD-Operating Supplies							
PO0005511	9.07	WU-Ops-T andD-Operating Supplies							
PO0005527	4,217.60	WU-Ops-T andD-Operating Supplies							
10-40-60-563-010	218.71		218.71						
PO0005223	218.71	WU-Ops-T andD-Supplies-Inv Stock							
10-40-60-564-000	10,364.99		10,364.99						
PO0005274	694.99	WU-Ops-TandD-Fuel							
PO0005276	9,670.00	WU-Ops-TandD-Fuel							
20-20-00-605-018	130,000.00					130,000.00			
PO0005524	130,000.00	FRC-Eng-ALLE--H-08 Hanalei Well 2							
20-20-00-605-117	304,981.00					304,981.00			
PO0004612	26,832.00	FRC-Eng-ALLE-12-02 WK-23 UH Expmntal Storage Tank							
PO0005534	278,149.00	FRC-Eng-ALLE-12-02 WK-23 UH Expmntal Storage Tank							

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Account Number	Encumbrance 6/30/2023	Account Description						
20-20-00-605-118	202,424.49				202,424.49			
PO0004545	61,504.69	Job 04-08 WK-39 Drill Kapaa Homestead Well 4						
PO0005536	140,919.80	Job 04-08 WK-39 Drill Kapaa Homestead Well 4						
20-20-00-605-120	7,212.24				7,212.24			
PO0002611	7,212.24	FRC Eng-90%E-Kilauea 1.0MG Tank Job 02-06						
20-20-00-605-153	8,174.95				8,174.95			
PO0002616	8,174.95	Job 15-08-HW-11Haena 0.2MG Tank						
20-20-00-605-154	297,240.00				297,240.00			
PO0003149	297,240.00	Job 17-11 Drill & Test Kilauea Well #3						
20-20-00-605-155	200,000.00				200,000.00			
PO0005523	200,000.00	FRC-Eng-ALLE-Wainiha Well #4						
30-20-00-604-105	63,998.94					63,998.94		
PO0004334	33,672.05	BAB-Eng-ALLR-09-01 K-01 Kalaheo 1111FR & 1222FT						
PO0005519	30,326.89	BAB-Eng-ALLR-09-01 K-01 Kalaheo 1111FR & 1222FT						
30-20-00-605-120	22,649.00					22,649.00		
PO0002611	22,649.00	BAB-Cns-ALLE-02-06WKK15-Kilauea 466 Tank Puu Pane						
30-20-00-605-125	53,508.05					53,508.05		
PO0002608	53,508.05	BAB-Eng-98%E-02-01 Land for Kukuioolono Tank Site						
30-20-00-605-139	94,222.00					94,222.00		
PO0002620	94,222.00	BAB-Eng-ALLE-02-11 M-02 100K Tnk & Pipeline Moloaa						
30-21-00-604-017	1,091,650.00					1,091,650.00		
PO0003577	1,091,650.00	Job 16-02 PLH-35B Kapaia Cane Haul Rd 18" Main						
40-21-00-604-001	677,103.89						677,103.89	
PO0005386	677,103.89	SAF/CM-ALLR-17-10-KW-07 Paua Valley Tank Repair						
40-21-00-604-157	2,600,000.00						2,600,000.00	
PO0005220	2,600,000.00	SAF/Cons/R&R/Kilauea Wells MCC Rehab						
40-21-00-605-029	10,200,000.00						10,200,000.00	
PO0005256	10,200,000.00	SAF/Cons/Exp/Yamada tank Clearwell, Conn Pipe						
60-21-00-604-029	8,471,130.49							8,471,130.49
PO0005259	8,471,130.49	SRF/Cons/R&R/Yamada Tank clearwell Conn Pipe						
Grand Total	42,356,778.09		6,185,968.88	11,746,514.16	1,150,032.68	1,326,027.99	13,477,103.89	8,471,130.49

DEPARTMENT OF WATER

County of Kaua'i

"Water has no Substitute – Conserve It!"

MANAGER'S REPORT No. 24-12

Re: DISCUSSION AND RECEIPT OF THE DEPARTMENT OF WATER'S (DOW) FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2023.

RECOMMENDATION:

It is recommended that the Board receive and accept DOW's audited Financial Statements and Independent Auditor's Report.

BACKGROUND:

DOW's independent auditor, N&K CPAs has completed the audit of the DOW's financial accounts and the internal controls in place for the fiscal year ended June 30, 2023.

A draft copy of the audited Financial Statements as of June 30, 2023, together with the Independent Auditor's Report are hereby submitted for your review, discussion, and necessary action. The auditors representing N&K CPAs are available to discuss the results of the audit and to answer any questions the Board may have.

OPTIONS:

Option 1: It is recommended that the Board review and accept the DOW's Financial Statements and Independent Auditor's Report by N&K CPAs, Inc for the fiscal year ended June 30, 2023.

Pros: Upon Board approval, DOW will be able to transmit the final copy of the audited Financial Statements to the County of Kauai, Department of Finance.

Cons: None known.

Option 2: Do not receive and accept the DOW's Financial Statements and Independent Auditor's Report by N&K CPAs, Inc. for the fiscal year ended June 30, 2023. Do not transmit the audited Financial Statements to the County of Kauai Department of Finance.

Pros: The Board will have additional time to discuss additional questions that they may have surrounding the results of the audit.

Con: Deferral may affect the County's timeline in finalizing its Annual Comprehensive Financial Report (ACFR) and DOW not meeting the targeted deadline of March 22, 2024.

RY/crz

Attachment: Financial Statements and Independent Auditor's Report FY 2023

**Department of Water,
County of Kaua'i**



**FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION WITH INDEPENDENT AUDITOR'S REPORT**

Fiscal Year Ended June 30, 2023

**DEPARTMENT OF WATER
COUNTY OF KAUAI**

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DEPARTMENT OF WATER
COUNTY OF KAUAI

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**Department of Water
County of Kauai
INTRODUCTION (Unaudited)
Fiscal Year Ended June 30, 2023**

To the Members of the Board of Water Supply and our Customers:

We are pleased to submit to you the Financial Statements of the Department of Water, County of Kaua'i (Department) for the fiscal year ended June 30, 2023.

The accuracy of the financial statements and the completeness and fairness of their presentation are the responsibility of the Department. We believe the data presented in the financial statements are complete and accurate in all material respects and are provided in a manner designed to present the financial position and results of operations of the Department. All disclosures necessary to convey the maximum understanding of the Department's financial activities have been included.

The Fiscal Division is tasked with the responsibility of establishing and maintaining an internal control structure and process that is designed to ensure that the assets of the Department are protected from loss, theft, or misuse. Furthermore, it is the responsibility of the Fiscal Division to compile adequate accounting data to allow for the accurate preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).

Management is required to make decisions and judgments as to the concept of what constitutes reasonable assurance in reviewing the internal control mechanisms. Management must also weigh the cost of the control against the benefit that will likely be attained.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This introduction is designed to complement the MD&A and should be read in conjunction with it.

History of the Department

The Department was created in 1960 by the authority of Act 20, Session Laws of Hawaii and established by the County Charter as a semi-autonomous and self-supporting component unit (enterprise fund) of the County government. The Department is not subsidized by nor receives contributions from the County's General Fund. The Department's operations are financed primarily by revenues from water sales, facility reserve charges (FRC), and water meter service charges.

The Department is governed by the Board of Water Supply (Board), consisting of seven members. Four members are appointed by the Mayor and confirmed by the County Council. The remaining three consist of the State District Engineer of the Department of Transportation, County Engineer, and Planning Director. The Board appoints the Manager and Chief Engineer to administer the Department.

Mission Statement

"Together, we provide safe, affordable, sufficient, drinking water through wise management of our resources and with excellent customer service for the people of Kaua'i."

**Department of Water
County of Kauai
INTRODUCTION (Unaudited)
Fiscal Year Ended June 30, 2023**

Department Operations

The Department is the primary water utility on the island of Kaua'i, operating ten separate and unconnected water systems with over 443 miles of pipeline. During the fiscal year, the Department delivered potable and non-potable water to approximately twenty-three thousand customers. The annual water consumption in gallons was 4.1 billion. Additionally, the Department maintained and serviced over three thousand fire hydrants.

The Department consists of four divisions: Administration, Fiscal, Engineering, and Operations. There are a total of 119 budgeted positions; of which, 89 were filled as of June 30, 2023.

Major Initiatives

In November 2021, the passing of the Bipartisan Infrastructure Law provided for unprecedented funding to support upgrades to the nation's drinking water, with funding dedicated to lead service line replacement and access to federal Drinking Water State Revolving Funds. Through this passing of legislation, water utilities are required to comply with Lead and Copper Rule Revisions with the Environmental Protection Agency (EPA). In August 2022, the EPA issued additional guidance and information to assist water utilities to prepare and maintain an inventory of service line materials by October 16, 2024. The Department continues to work towards meeting this deadline.

In February 2022, the Department initiated the Water System Investment Plan (WSIP) project that would span over a two-year period. This project includes updating the water system's geographical information system (GIS) and hydraulic model, water demand study, capital improvement program, FRC, and a climate change and resiliency study. Subsequently and in November 2023, the WSIP project was amended to include a water rate study utilizing the information and data obtained from the ongoing project. The Department's last water rate increase was in July 2014 and current water rates are only sufficient to cover operational and annual debt service expenses.

The water rate study will provide a five-year rate recommendation beginning July 1, 2025, and will consider the outlook of the Department's projected revenues, expenses, capital project financing, annual debt service, and reserve funding.

In June 2023, a blessing was held for the \$21.8 million Kalaheo Water Systems Improvement Project. This is the largest project in the Department's history and is funded by State Legislative Appropriations (\$10.2 million), State Department of Health Drinking Water State Revolving Fund (DWSRF) grant (\$5.2 million), loans financed by the State of Hawaii DWSRF (\$7.8 million), and Department matching funds (\$2 million). In addition to construction costs, approximately \$1 million was awarded for contract management utilizing Department funds. The project is anticipated to be completed by 2025 and will be conducted in three phases, eventually replacing two water storage tanks.

**Department of Water
County of Kauai
INTRODUCTION (Unaudited)
Fiscal Year Ended June 30, 2023**

Long-term Financial Planning

The Department's mission is to provide residents with a safe, dependable, and affordable drinking water supply. Efforts to maintain and improve water system facilities, aging water infrastructure, and improvements for fire protection are continuous. The Department actively pursues State funding through grants and loans. Federal resources will be pursued to help subsidize projects in the future. The major projects in progress or on the horizon include:

- IT Infrastructure Improvements
- Meter Replacement Project
- Kapaa Homesteads Well and Tanks
- Weke, Anae, Mahimahi, and Hee Road Main Replacement
- Kapaa Homesteads Well and Tanks
- Kalaheo Water System Improvements
- Kuhio Highway Main Replacement
- Kapaia Cane Haul Road Environmental Impact Statement (EIS)

Awards

Annually, the EPA recognizes and awards WaterSense partners who contribute to enhancing the market for water-efficient products, practices, and services. WaterSense recognizes those partners who have gone above and beyond in supporting this program. On October 5, 2023, the Department won its third WaterSense Excellence Award for Education, Outreach, and Promoting WaterSense Labeled Products. The EPA recognized a total of 25 Excellence Award winners.

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, 2023, 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, 2023, 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.

Emphasis of Matter

As discussed in Note O to the financial statements, net position as of July 1, 2022 has been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

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.
- 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 12 to 18 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 54 to 59 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introduction but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March XX, 2024 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.

Honolulu, Hawaii
March XX, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRAFT

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2023**

The management of the Department of Water, County of Kauai (the "Department") offers to readers a narrative overview and analysis of the Department's financial activities for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the Department's basic financial statements that follow this section.

Financial Highlights

In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements (SBITAs)*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for SBITAs by governments. The Department adopted GASB 96 in the current fiscal year.

Additionally, the Department recorded a prior period adjustment to beginning net position in of \$5.6 million. The prior period adjustment was due to reclassifying construction-in-progress (CIP) assets to properly recognize these amounts as expenses (\$2.6 million), record pollution remediation liabilities (\$3.3 million) under GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*, and decrease the accrued compensated absence liability by \$0.3 million. The prior period adjustment resulted in an overall decrease to net position as of July 1, 2022. Additional information can be found in Note O in the notes to the basic financial statements.

The Department's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by \$220.8 million, an increase of \$4 million from the prior year. Restricted net position increased by \$2.6 million, ending at \$5.2 million. Unrestricted net position decreased by (\$2.5) million, ending at \$19.2 million.

The following explains the significant changes in net position:

- Operating expenses remained relatively flat, increasing by \$0.2 million as compared to the prior year, ending at \$28.7 million.
- Operating revenues remained flat as compared to the prior year, ending at \$30.9 million.
- Operating revenues and capital contributions exceeded total operating expenses by \$4 million, increasing net position.
- Assets, including capital assets, ended at \$303.6 million; a decrease of \$4.3 million or 1.4% from the prior year.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2023**

Overview of the Financial Statements

The Department is a semi-autonomous component unit of the County of Kaua'i. The financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private-sector business. Accordingly, it presents the financial picture of the Department from the economic resources measurement and the accrual basis of accounting; whereby, revenues and expenses are recognized in the period earned or when incurred.

The basic financial statements include the statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and notes to the financial statements. The statement of net position presents the resources and obligations of the Department as of the end of the reporting period. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents the results of operations and the resulting change in net position for the fiscal year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, investing, capital and related financing activities, and non-capital financing activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 25 - 52 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Department's progress in funding its obligation to provide pension and postemployment benefits other than pension (OPEB) to its employees. Required supplementary information can be found on page 54 - 59 of this report.

Supplementary Information

The schedule of utility plant-in-service and schedule of selective account classifications are presented immediately following the required supplementary information on pensions and OPEB. Supplementary information can be found starting on page 61.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2023**

Financial Condition

**Statements of Net Position - Condensed
June 30, 2023 and 2022**

	2023	2022 (Restated)	2023 - 2022	
			Increase (decrease)	% Change
Assets				
Current assets	\$ 16,194,257	\$ 17,500,410	\$ (1,306,153)	-7.5%
Net capital assets	240,894,941	241,016,393	(121,452)	-0.1%
Other noncurrent assets	46,547,745	49,394,594	(2,846,849)	-5.8%
Total assets	303,636,943	307,911,397	(4,274,454)	
Deferred outflows of resources	7,750,280	5,358,040	2,392,240	44.6%
Total assets and deferred outflows	\$ 311,387,223	\$ 313,269,437	\$ (1,882,214)	-0.6%
Liabilities				
Current liabilities	\$ 12,747,085	\$ 12,283,464	\$ 463,621	3.8%
Noncurrent liabilities				
Bonds payable, noncurrent	37,812,449	41,179,190	(3,366,741)	-8.2%
Notes payable, noncurrent	8,916,937	10,685,305	(1,768,368)	-16.5%
Net pension liability	17,948,894	13,195,469	4,753,425	36.0%
Net OPEB liability	3,735,663	4,866,291	(1,130,628)	-23.2%
Other liabilities	1,522,811	4,126,709	(2,603,898)	-63.1%
Total liabilities	82,683,839	86,336,428	(3,652,589)	-4.2%
Deferred inflows of resources	7,876,976	10,089,749	(2,212,773)	-21.9%
Total liabilities and deferred inflows	\$ 90,560,815	\$ 96,426,177	\$ (5,865,362)	-6.1%
Net position				
Net investment in capital assets	\$ 196,424,711	\$ 192,553,137	\$ 3,871,574	2.0%
Restricted	5,205,779	2,622,889	2,582,890	98.5%
Unrestricted	19,195,918	21,667,234	(2,471,316)	-11.4%
Total net position	\$ 220,826,408	\$ 216,843,260	\$ 3,983,148	1.8%
Total liabilities, deferred inflows, and net position	\$ 311,387,223	\$ 313,269,437	\$ (1,882,214)	-0.6%

The Department's liquidity ratio was 1.3 and 1.4 at June 30, 2023 and 2022, respectively. Current assets and other noncurrent assets decreased by \$1.3 million and \$2.8 million, respectively. The decrease is primarily due to decreases in cash and cash equivalents, investments, and less than favorable return on investments.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2023**

Current liabilities remained relatively flat to the prior year, increasing slightly by \$0.5 million. Noncurrent liabilities decreased by \$4.1 million and was primarily attributable to principal payments of outstanding bonds and loans of \$5.1 million, a decrease in net OPEB liability of \$1.1 million, offset by a \$4.7 million increase in net pension liability. The increase in pension liability was primarily due to an increase in the Department's proportionate share of the collective net pension liability, changes in assumptions, and differences between projected and actual investment earnings.

As noted earlier, net position may serve over time as a useful indicator of the Department's financial condition. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating. The Department's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$220.8 million at the close of the fiscal year.

The largest portion of the Department's net position reflects its net investment in capital assets, ending at \$196.4 million or 88.9% of net position. The Department uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

The Department's restricted net position category represents \$5.2 million or 2.4% of net position. These restrictions on net position are imposed by enabling legislation or parties outside the government (such as creditors, grantors, contributors, laws or regulations of other governments).

The difference between total net position and the two categories just discussed (net investment in capital assets and restricted net position) is the unrestricted net position. As of June 30, 2023, the Department's unrestricted net position ended at \$19.2 million or 8.7% of net position.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2023**

Results of Operations

**Statements of Revenues, Expenses and Changes in Net Position - Condensed
Fiscal Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022 (Restated)</u>	<u>2023 - 2022</u>	
			<u>Increase (decrease)</u>	<u>% Change</u>
Operating revenues	\$ 30,914,161	\$ 30,879,580	\$ 34,581	0.1%
Operating expenses				
Administration and general	8,688,962	9,582,038	(893,076)	-9.3%
Depreciation and amortization	6,898,201	7,020,814	(122,613)	-1.7%
Transmission and distribution	5,997,608	4,531,358	1,466,250	32.4%
Power and pumping	3,196,987	3,197,442	(455)	0.0%
Source of supply	2,512,842	2,655,934	(143,092)	-5.4%
Customers' accounting and collection	1,042,809	957,472	85,337	8.9%
Purification	640,486	795,211	(154,725)	-19.5%
Total operating expenses	<u>28,977,895</u>	<u>28,740,269</u>	<u>237,626</u>	0.8%
Operating income	1,936,266	2,139,311	(203,045)	-9.5%
Nonoperating revenues (expenses)	(2,654,219)	(4,467,145)	1,812,926	-40.6%
Capital contributions	<u>4,701,101</u>	<u>2,727,461</u>	<u>1,973,640</u>	72.4%
Change in net position	<u>3,983,148</u>	<u>399,627</u>	<u>3,583,521</u>	896.7%
Net position				
Beginning of year	<u>216,843,260</u>	<u>216,443,633</u>	<u>399,627</u>	0.2%
End of year	<u>\$ 220,826,408</u>	<u>\$ 216,843,260</u>	<u>\$ 3,983,148</u>	1.8%

The Department's operating revenues remained flat as compared to the prior year, ending at \$30.9 million. During the fiscal year, the Department experienced delays in processing monthly billing statements due to an increase in failing transponder units preventing automatic meter readings for a growing number of customer accounts. The accounts that were affected were billed on a lower-than-average estimate water consumption versus actual consumption. As a result of the delays in billing and subsequent collection of payments, the Department recorded a \$1 million adjustment to properly reflect water sales revenue as of the fiscal year ended June 30, 2023. Refer to Schedule of Findings 2023-002, starting on page 67.

Overall operating expenses remained relatively flat to the prior year, ending at \$28.9 million. Major factors may be attributable to a combination of the following:

- Administration and general decreased by \$0.9 million. As mentioned previously, the Department had prior period adjustments for pollution remediation and accrued compensated leave liabilities. The decrease is primarily due to the restated amount as of July 1, 2022, whereby adjusted expenses in the reporting period created a larger variance.
- Transmission and distribution increased by \$1.4 million. The increase is primarily due to equipment purchases such as meters, transponders, and registers.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2023**

- Large expenses came from the funding of OPEB and pension; whereby, qualified employees are promised specific healthcare and pension related benefits upon separation and/or retirement. The Department paid 100% of its annual required contribution (ARC) for OPEB, amounting to \$1 million and pension expense of \$1.6 million in the current fiscal year. Additional information surrounding pension and OPEB can be found in the notes to the basic financial statements and required supplementary information in Notes J and K, respectively.
- Net nonoperating revenues (expenses) decreased by approximately \$1.8 million. The decrease was primarily due to net realized and unrealized loss on investments.
- Capital contributions increased by approximately \$2 million. The increase was due to FRC and conveyances from new developments and residential properties requiring water from the Department.

Capital Assets and Debt Administration

Capital Assets

The Department's net capital assets as of June 30, 2023, amounted to \$240.9 million. Capital assets include land, buildings and improvements, machinery and equipment, infrastructure (e.g., transmission and distribution, pipelines), and construction-in-progress, less accumulated depreciation and amortization. Most capital projects pass through construction-in-progress before being capitalized because of the multi-year completion process.

**Summary of Capital Assets
June 30, 2023 and 2022**

	2023	2022 (Restated)
Non-depreciable assets:		
Land	\$ 1,307,422	\$ 1,307,422
CIP	8,489,135	6,705,641
Depreciable assets:		
Utility plant	339,663,936	335,594,225
General plant	25,440,887	24,774,299
Intangible	2,224,382	1,990,260
Less: accumulated depreciation	<u>(136,230,821)</u>	<u>(129,355,454)</u>
Total capital assets, net	<u>\$ 240,894,941</u>	<u>\$ 241,016,393</u>

Major assets added and capital asset activity during the current fiscal year included the following:

- Generator and excavator power equipment.
- Completion of Hanapepe-Eleele connecting pipeline.
- Completion of County Housing Lima Ola affordable housing project infrastructure buildout (pipelines, service laterals, hydrants, etc.)
- Improvements/rehabilitation to Kilauea wells MCC.

**Department of Water
County of Kauai
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2023**

Additional information on the Department's capital assets can be found in Note E in the notes to the basic financial statements.

Long-term Debt

At the end of the fiscal year, the Department had total bonds and loans outstanding of \$51.8 million. Of this amount, \$41.1 million is comprised of debt backed by the full faith and credit of the County government (general obligations) and \$10.7 million represents DWSRF loans used to finance construction projects.

There were no new general obligation bonds or loans issued during the fiscal year. The Department's debt to equity ratio was 23.6% and 26.2% at June 30, 2023 and 2022, respectively.

Outstanding Series 2010A, Series 2021A and Series 2021B, have been assigned underlying ratings of AA from S&P Global, Aa2 from Moody's, and AA from Fitch.

Additional information on the Department's long-term debt can be found in Note F in the notes to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Department's finances. Questions surrounding any information provided in this report or requests for additional information should be addressed to the Waterworks Controller, Department of Water, County of Kaua'i at 4398 Pua Loke Street, Lihue, Kaua'i, Hawai'i 96766.

DRAFT

BASIC FINANCIAL STATEMENTS

**Department of Water
County of Kauai
STATEMENT OF NET POSITION
June 30, 2023**

ASSETS

Current assets

Cash and cash equivalents	\$	4,886,347
Investments		5,726,216
Receivables		
Accounts, net of allowance for doubtful accounts of approximately \$207,000		1,323,014
Unbilled accounts, net of allowance for doubtful accounts of approximately \$123,000		2,463,064
Grants and subsidies		469,710
Accrued interest		139,363
Materials and supplies		1,132,866
Prepaid expenses		53,677
Total current assets		16,194,257

Restricted assets

Facility reserve charge funds		
Cash and cash equivalents		4,707,137
Grants and subsidies		201,304
Bond funds		
Cash and cash equivalents		832,782
Investments		8,298,557
Accrued interest		50,892
Other		
Grants and subsidies		246,446
Total restricted assets		14,337,118

Investments, noncurrent

32,210,627

Capital assets

Utility plant in service		368,636,627
Less accumulated depreciation		(136,230,821)
Total utility plant, net		232,405,806
Construction work in progress		8,489,135
Net capital assets		240,894,941

Total assets

303,636,943

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions		6,570,691
Deferred outflows of resources related to OPEB		1,179,589
Total deferred outflows of resources		7,750,280
Total assets and deferred outflows of resources	\$	311,387,223

See accompanying notes to financial statements.

**Department of Water
County of Kauai
STATEMENT OF NET POSITION (Continued)
June 30, 2023**

LIABILITIES

Current liabilities

Current portion of long-term debt	\$	5,099,369
Accounts payable and accrued liabilities		5,030,275
Contracts payable, including retainages		572,121
Accrued compensated absences		628,445
Pollution remediation obligation		500,000
Customer deposits		<u>916,875</u>
Total current liabilities		<u>12,747,085</u>

Noncurrent liabilities

Long-term debt, net of current portion and unamortized premiums		46,729,386
Net pension liability		17,948,894
Net OPEB liability		3,735,663
Accrued compensated absences, net of current portion		752,353
Pollution remediation obligation, net of current portion		<u>770,458</u>
Total noncurrent liabilities		<u>69,936,754</u>
Total liabilities		<u>82,683,839</u>

DEFERRED INFLOWS OF RESOURCES

Deferred gain on refunding		78,938
Deferred inflows of resources related to pensions		4,868,707
Deferred inflows of resources related to OPEB		<u>2,929,331</u>
Total deferred inflows of resources		<u>7,876,976</u>

NET POSITION

Net investment in capital assets		196,424,711
Restricted for capital activity		5,205,779
Unrestricted		<u>19,195,918</u>
Total net position		<u>220,826,408</u>
Total liabilities, deferred inflows of resources and net position	\$	<u>311,387,223</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, 2023**

OPERATING REVENUES	
Water sales	\$ 28,254,997
Other water revenue	
Public fire protection service	2,228,166
Other	<u>430,998</u>
Total operating revenues	<u>30,914,161</u>
OPERATING EXPENSES	
Administration and general	8,688,962
Depreciation and amortization	6,898,201
Transmission and distribution	5,997,608
Power and pumping	3,196,987
Source of supply	2,512,842
Customers' accounting and collection	1,042,809
Purification	<u>640,486</u>
Total operating expenses	<u>28,977,895</u>
Operating income	<u>1,936,266</u>
NONOPERATING REVENUES (EXPENSES)	
Investment loss, net	(172,152)
Interest expense	<u>(2,482,067)</u>
Total nonoperating expenses, net	<u>(2,654,219)</u>
Loss before contributions	(717,953)
CAPITAL CONTRIBUTIONS	
	<u>4,701,101</u>
Change in net position	<u>3,983,148</u>
NET POSITION	
Beginning of year, as previously reported	222,453,299
Restatement	<u>(5,610,039)</u>
Beginning of year, as restated	<u>216,843,260</u>
End of year	\$ <u>220,826,408</u>

See accompanying notes to financial statements.

**Department of Water
County of Kauai
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 27,897,592
Payments to suppliers for goods and services	(10,001,802)
Payments to employees for services	<u>(11,437,043)</u>
Net cash provided by operating activities	<u>6,458,747</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(6,855,180)
Principal payment on long-term debt	(4,961,482)
Interest paid on long-term debt	(2,619,332)
Proceeds from capital contributions	<u>3,168,438</u>
Net cash used in capital and related financing activities	<u>(11,267,556)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(5,951,767)
Sales and maturities of investments	11,511,845
Interest on investments	<u>779,381</u>
Net cash provided by investing activities	<u>6,339,459</u>

Net increase in cash and cash equivalents	1,530,650
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CASH AND CASH EQUIVALENTS

Beginning of year	<u>8,895,616</u>
End of year	<u>\$ 10,426,266</u>

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

Unrestricted	\$ 4,886,347
Restricted - Facility reserve charge funds	4,707,137
Restricted - Bond funds	<u>832,782</u>
	<u>\$ 10,426,266</u>

See accompanying notes to financial statements.

**Department of Water
County of Kauai
STATEMENT OF CASH FLOWS (Continued)
Fiscal Year Ended June 30, 2023**

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

Operating income	\$ 1,936,266
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization and loss on disposals	6,898,201
Bad debt expense	123,000
Decrease (increase) in assets and deferred outflows of resources:	
Accounts receivable	317,321
Unbilled accounts	(1,275,905)
Materials and supplies	(130,929)
Deferred outflows of resources	(2,392,240)
Increase (decrease) in liabilities and deferred outflows of resources:	
Accounts payable and accrued liabilities	1,426,734
Accrued compensated absences	22,707
Pollution remediation obligation	(2,064,224)
Customer deposits	170,181
Net pension liability	4,753,425
Net OPEB liability	(1,130,628)
Deferred inflows of resources	(2,195,162)
Net cash provided by operating activities	<u>\$ 6,458,747</u>

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

Net decrease in fair value of investments	\$ 943,338
Capital contributions - conveyances of capital assets	\$ 1,671,217
Capital asset additions included in contracts and accounts payable at year end	\$ 1,693,876
Amortization of bond premium	\$ 53,351

See accompanying notes to financial statements.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

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, pollution remediation obligation, 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, 2023**

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

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (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.
- (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.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (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.
- (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.

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, 2023, the carrying value of the Department's cash deposits amounted to approximately \$10,414,000 and the balances carried by the banks were approximately \$10,635,000. The County Director of Finance has arranged for all of the Department's deposits at June 30, 2023 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, 2023**

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, 2023:

	Assets at Fair Value at June 30, 2023			
	Total	Level 1	Level 2	Level 3
U. S. Treasury obligations	\$ 989,260	\$ 989,260	\$ --	\$ --
U. S. government agencies	37,678,005	--	37,678,005	--
Municipal bonds	1,276,132	--	1,276,132	--
Money market mutual funds	818,003	818,003	--	--
	<u>\$ 40,761,400</u>	<u>\$ 1,807,263</u>	<u>\$ 38,954,137</u>	<u>\$ --</u>
Investments measured at amortized cost				
Certificates of deposit	<u>5,474,000</u>			
Total investments	<u>\$ 46,235,400</u>			

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE D - INVESTMENTS (Continued)

The following table represents the Department's investments by maturity as of June 30, 2023:

	Investment Maturities (In Years)		
	Reported Value	Less Than 1	1 - 5
U. S. Treasury obligations	\$ 989,260	\$ --	\$ 989,260
U. S. government agencies	37,678,005	4,180,950	33,497,055
Municipal bonds	1,276,132	54,360	1,221,772
Certificates of deposit	<u>5,474,000</u>	<u>1,982,000</u>	<u>3,492,000</u>
	<u>\$ 45,417,397</u>	<u>\$ 6,217,310</u>	<u>\$ 39,200,087</u>
Money market mutual funds	<u>818,003</u>		
Total investments	<u>\$ 46,235,400</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, 2023, 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, 2023, more than 5% of the Department's investments are held in the following: Federal Home Loan Bank (54%), Federal Farm Credit Bank (14%), and Federal Home Loan Mortgage Company (12%).

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE E - CAPITAL ASSETS

Capital asset activity during the fiscal year ended June 30, 2023 were as follows:

	Balance July 1, 2022 (restated)	Additions	Reductions/ Transfers	Balance June 30, 2023
Capital assets not being depreciated				
Land and land rights	\$ 1,307,422	\$ --	\$ --	\$ 1,307,422
Construction in progress	6,705,641	3,993,409	(2,209,915)	8,489,135
Total capital assets not being depreciated	<u>8,013,063</u>	<u>3,993,409</u>	<u>(2,209,915)</u>	<u>9,796,557</u>
Capital assets being depreciated				
Utility plant	335,594,225	4,092,549	(22,838)	339,663,936
General plant	24,774,299	666,588	--	25,440,887
Intangible assets	1,990,260	234,122	--	2,224,382
Total capital assets being depreciated	<u>362,358,784</u>	<u>4,993,259</u>	<u>(22,838)</u>	<u>367,329,205</u>
Less accumulated depreciation and amortization				
Utility plant	(116,915,001)	(5,848,307)	19,663	(122,743,645)
General plant	(10,582,365)	(941,048)	--	(11,523,413)
Intangible assets	(1,858,088)	(105,675)	--	(1,963,763)
Total accumulated depreciation and amortization	<u>(129,355,454)</u>	<u>(6,895,030)</u>	<u>19,663</u>	<u>(136,230,821)</u>
Total capital assets, net	<u>\$ 241,016,393</u>	<u>\$ 2,091,638</u>	<u>\$ (2,213,090)</u>	<u>\$ 240,894,941</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, 2023 bonds payable consisted of the following:

General Obligation Bonds - County Series 2021A, due in annual installments of \$368,000 to \$406,000 through August 2025, interest payments semi-annually from 3% to 5%.	\$ <u>1,160,000</u>
Subtotal	\$ <u>1,160,000</u>

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE F - LONG-TERM DEBT (Continued)

Subtotal carried forward	\$ 1,160,000
General Obligation Bonds - County Series 2021B, due in annual installments of \$233,600 to \$250,000 through August 2029, interest payments semi-annually from 3% to 5%.	1,680,800
Build America Bonds - County Series 2010A, due in annual installments of \$2,730,000 to \$4,470,000 through August 2033, interest payments semi-annually from 4.76% to 5.76%.	<u>38,185,000</u>
	<u>41,025,800</u>
Premium on bond issuance	<u>117,649</u>
	<u>\$ 41,143,449</u>

The approximate annual debt service requirements to maturity as of June 30, 2023 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 3,331,000	\$ 2,109,000	\$ 5,440,000
2025	3,491,000	1,949,000	5,440,000
2026	3,667,000	1,775,000	5,442,000
2027	3,429,000	1,596,000	5,025,000
2028	3,612,000	1,414,000	5,026,000
2029 - 2033	20,506,000	3,859,000	24,365,000
2034	<u>2,990,000</u>	<u>86,000</u>	<u>3,076,000</u>
Total	<u>\$ 41,026,000</u>	<u>\$ 12,788,000</u>	<u>\$ 53,814,000</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, 2023, \$7,127,090 of bonds outstanding are considered defeased.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE F - LONG-TERM DEBT (Continued)

Loans Payable - The full faith and credit of the Board and the Department's revenue is pledged as security 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, 2023 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.	\$ 2,325,823
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.	1,073,190
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.	1,969,968
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.	1,361,441
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.	1,422,983
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>1,197,480</u>
Subtotal	<u>\$ 9,350,885</u>

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE F - LONG-TERM DEBT (Continued)

Subtotal carried forward	\$ 9,350,885
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.	663,291
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.	368,746
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.	137,343
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.	34,940
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.	88,569
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.	19,515
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.	<u>22,017</u>
	<u>\$ 10,685,306</u>

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE F - LONG-TERM DEBT (Continued)

The approximate annual debt service requirements to maturity as of June 30, 2023 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	1,206,000	98,000	1,304,000
2029-2033	2,795,000	121,000	2,916,000
2034-2035	158,000	2,000	160,000
	<u>\$ 10,685,000</u>	<u>\$ 1,098,000</u>	<u>\$ 11,783,000</u>

NOTE G - POLLUTION REMEDIATION OBLIGATION

The Department recognized a pollution remediation obligation to address the existence of polychlorinated biphenyls ("PCBs") and lead-containing and lead-based paint identified at one of the Department's water tanks. The location of the tank is out of the public access and has been taken out of service while the Department addresses this issue in coordination with the State Department of Health and U.S. Environmental Protection Agency. Management's estimate of the liability is based on amounts specified in executed contracts for remediation services that include both pre-cleanup and cleanup activities. Unforeseen events and circumstances could alter the estimate of the costs associated with these remediation services, which could change management's estimate of the pollution remediation obligation in the future. As of June 30, 2023, the estimated pollution remediation obligation was \$1,270,458.

NOTE H - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the fiscal year ended June 30, 2023 were as follows:

	Balance July 1, 2022 (Restated)	Additions	Reductions	Balance June 30, 2023	Current Portion
General obligation bonds payable	\$ 44,170,800	\$ --	\$ (3,145,000)	\$ 41,025,800	\$ 3,331,000
Add premiums on bond issuance	153,390	--	(35,741)	117,649	--
Total bonds payable	44,324,190	--	(3,180,741)	41,143,449	3,331,000
Loans payable	12,501,788	--	(1,816,482)	10,685,306	1,768,369
Accrued compensated absences	1,358,091	560,604	(537,897)	1,380,798	628,445
Pollution remediation obligation	3,334,682	262,711	(2,326,935)	1,270,458	500,000
	<u>\$ 61,518,751</u>	<u>\$ 823,315</u>	<u>\$ (7,862,055)</u>	<u>\$ 54,480,011</u>	<u>\$ 6,227,814</u>

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE I - NET POSITION

As of June 30, 2023, net position consisted of the following:

Net investment in capital assets	
Capital assets, net	\$ 240,894,941
Less: Long-term debt, net	(51,828,755)
Less: Accounts and contracts payable attributable to capital assets	(1,693,876)
Unspent debt proceeds	9,131,339
Deferred gain on refunding	(78,938)
	<u>196,424,711</u>
Restricted for capital activity, debt service, and reserved funds	
Cash	5,539,919
Investments	8,298,557
Grants and subsidies	498,642
Less: Unspent debt proceeds	(9,131,339)
	<u>5,205,779</u>
Unrestricted	<u>19,195,918</u>
	<u>\$ 220,826,408</u>

NOTE J - 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, 2023**

NOTE J - 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, 2023**

NOTE J - 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, 2023**

NOTE J - 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, 2023**

NOTE J - 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 three years. Employer contribution rates are 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, 2023 was 24%. Contributions to the pension plan from the Department were \$1,873,340 for the year ended June 30, 2023.

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, 2023, the Department reported a liability of \$17,948,894, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2022, the Department's proportion was .17%, which was an increase of .04% from its proportion measured as of June 30, 2021.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE J - EMPLOYEES' RETIREMENT SYSTEM (Continued)

For the year ended June 30, 2023, the Department recognized pension expense of approximately \$1,594,000. At June 30, 2023, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 322,096	\$ 259,841
Changes of assumptions	26,336	227,664
Net difference between projected and actual earnings on pension plan investments	--	776,854
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,348,919	3,604,348
Employer contributions subsequent to the measurement date	1,873,340	--
	\$ 6,570,691	\$ 4,868,707

The Department reported \$1,873,340 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2023 will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Net Deferred Outflows (Inflows)
2024	\$ 86,098
2025	(564,355)
2026	(676,330)
2027	938,398
2028	44,833
	\$ (171,356)

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE J - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Actuarial assumption - The total pension liability in the June 30, 2022 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	3.75% - 6.75%

Mortality rates used in the actuarial valuation as of June 30, 2022 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 2022 Public Retirees of Hawaii mortality table. The rates are projected on a fully generational basis by the long-term rates of scale UMP from the year 2022 and with multiplier and setbacks based on plan and group experience.

Disabled retirees: Base Table for healthy retiree's occupation, set forward 3 years, generational projection using the UMP projection table from the year 2022. Minimum mortality rate of 3.5% for males and 2.5% for females.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period ended June 30, 2021.

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:

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE J - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Classes	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return*
Broad growth			
Private Equity	13.5%	11.0%	8.9%
Global Equity	20.0%	8.5%	6.4%
Low Volatility Equity	4.0%	7.8%	5.7%
Global Options	4.0%	6.4%	4.3%
Credit	6.0%	7.7%	5.6%
Core Real Estate	6.0%	6.4%	4.3%
Non-Core Real Estate	4.5%	9.5%	7.4%
Timber/Agriculture/Infrastructure	5.0%	8.3%	6.2%
Diversifying strategies			
TIPs	2.0%	3.3%	1.2%
Global Macro	4.0%	5.4%	3.3%
Reinsurance	4.0%	6.4%	4.3%
Alternative Risk Premia	8.0%	5.4%	3.3%
Long Treasuries	5.0%	3.8%	1.7%
Intermediate Government	4.0%	3.2%	1.1%
Systematic Trend Following	10.0%	6.2%	4.1%
	<u>100.0%</u>		

* Uses an expected inflation rate of 2.10%

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.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE J - EMPLOYEES' RETIREMENT SYSTEM (Continued)

Sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate - The following presents the Department's proportionate share of the net pension liability 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>24,051,431</u>	\$ <u>17,948,894</u>	\$ <u>12,897,159</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, 2023, the amounts payable to the ERS totaled \$361,143, which consists of excess pension costs required by the HRS for fiscal year 2023.

NOTE K - 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, 2023**

NOTE K - 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, 2022, the following number of plan members were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	62
Inactive employees entitled but not yet receiving benefits	8
Active employees	91
	161

Contributions - Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Department were \$1,058,000 for the year ended June 30, 2023. 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, 2022, 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, 2023, the Department reported a net OPEB liability of \$3,735,663.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

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

Actuarial Assumptions - The total OPEB liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2022
Actuarial cost method	Entry age normal
Discount rate	7.00%
Inflation	2.50%
Salary increases	3.75% to 6.75%, including inflation
Demographic assumptions	Based on the 2022 actuarial experience study as conducted June 30, 2021 for the ERS.
Mortality	System-specific mortality tables utilizing ultimate scale MP2021 to project generational mortality improvement.
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution ("BMC"). Healthcare participation rates of 25%, 65% and 90% for retirees that receive 0%, 50% or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B.
Healthcare cost trend rates	
PPO*	Initial rate of 6.40%, declining to a rate of 4.25% after 22 years
HMO**	Initial rate of 6.40%, declining to a rate of 4.25% after 22 years
Part B & base monthly contribution	Initial rate of 5.00%, declining to a rate of 4.25% after 22 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

*Blended rates for medical and prescription drug.

**Includes prescription drug assumptions

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE K - 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
Global equity	27.50%	6.62%
Private equity	12.50%	11.72%
Real assets	10.00%	6.59%
Trend following	10.00%	4.53%
Private credit	8.00%	6.38%
Long treasuries	6.00%	2.32%
U.S. microcap	6.00%	8.28%
Alternative risk premia	5.00%	3.74%
Global options	5.00%	4.45%
Reinsurance	5.00%	4.81%
TIPS	5.00%	1.35%
	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, 2023**

NOTE K - 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, 2022	\$ <u>19,322,501</u>	\$ <u>14,456,210</u>	\$ <u>4,866,291</u>
Changes for the year:			
Service cost	438,674	--	438,674
Interest on the total OPEB liability	1,349,585	--	1,349,585
Difference between expected and actual experience	(1,388,028)	--	(1,388,028)
Changes of assumptions	(668,033)	--	(668,033)
Contributions - employer	--	1,143,000	(1,143,000)
Net investment income	--	(283,267)	283,267
Benefit payments	(524,110)	(524,110)	--
Administrative expense	--	(1,242)	1,242
Other	--	4,335	(4,335)
Net changes	<u>(791,912)</u>	<u>338,716</u>	<u>(1,130,628)</u>
Balance at June 30, 2023	\$ <u>18,530,589</u>	\$ <u>14,794,926</u>	\$ <u>3,735,663</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>6,571,747</u>	\$ <u>3,735,663</u>	\$ <u>1,470,222</u>

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE K - 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>1,348,188</u>	\$ <u>3,735,663</u>	\$ <u>6,765,806</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, 2023, the Department recognized OPEB expense of approximately \$206,000. At June 30, 2023, 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	\$ 13,958	\$ 2,294,291
Changes of assumptions	104,498	635,040
Net difference between projected and actual earnings on OPEB plan investments	3,133	--
Employer contributions subsequent to the measurement date	<u>1,058,000</u>	<u>--</u>
	\$ <u>1,179,589</u>	\$ <u>2,929,331</u>

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

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

The Department reported \$1,058,000 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, 2024. 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
2024	\$ (543,057)
2025	(593,363)
2026	(715,629)
2027	(293,468)
2028	(371,274)
Thereafter	(290,951)
	\$ (2,807,742)

NOTE L - 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 M - COMMITMENTS AND CONTINGENCIES

Sick Leave

Accumulated sick leave as of June 30, 2023 was approximately \$2,082,000. 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, 2023**

NOTE M - 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, 2023, the workers' compensation liability amount to approximately \$156,000 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 term of the Agreement extended through February 2023 and is currently on a month-to-month arrangement. 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 \$1,835,000 for the fiscal year ended June 30, 2023.

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 \$42,357,000 as of June 30, 2023.

**Department of Water
County of Kauai
NOTES TO FINANCIAL STATEMENTS
June 30, 2023**

NOTE N - 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 \$2,228,166 for the fiscal year ended June 30, 2023.

NOTE O - RESTATEMENT

Net position as of June 30, 2022 has been restated to correct the following misstatements. As of June 30, 2022, construction in progress included certain costs that should not have been capitalized, an estimated pollution remediation liability related to one of the Department's water tanks was not recorded, and accrued compensated absences included estimated contributions to the pension and OPEB plans that should not have been included as an additional liability. The effects of the restatement was to decrease construction in progress by \$2,578,137, increase the pollution remediation liability by \$3,334,682, decrease accrued compensated absences by \$302,780 and decrease net position by \$5,610,039 as of June 30, 2022, and to decrease the change in net position by \$1,479,686 for the fiscal year ended June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

DRAFT

**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, 2022	0.17%	\$ 17,948,894	\$ 6,332,000	283.46%	62.76%
June 30, 2021	0.13%	\$ 13,195,469	\$ 6,382,000	206.76%	64.25%
June 30, 2020	0.17%	\$ 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%

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, 2023	\$ 1,873,000	\$ 1,873,000	\$ --	\$ 6,301,000	29.73%
June 30, 2022	\$ 1,792,000	\$ 1,792,000	\$ --	\$ 6,332,000	28.30%
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%

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, 2023**

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***

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability						
Service cost	\$ 438,674	\$ 432,883	\$ 426,197	\$ 406,353	\$ 380,070	\$ 380,075
Interest on the total OPEB liability	1,349,585	1,302,575	1,307,741	1,221,753	1,144,135	1,073,630
Difference between expected and actual experience	(1,388,028)	(544,543)	(1,183,289)	33,498	(135,272)	--
Changes of assumptions or other inputs	(668,033)	--	(109,324)	83,252	237,370	--
Benefit payments	(524,110)	(520,381)	(516,535)	(536,228)	(525,000)	(368,000)
Net change in total OPEB liability	(791,912)	670,534	(75,210)	1,208,628	1,101,303	1,085,705
Total OPEB liability - Beginning	<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>	<u>15,331,541</u>
Total OPEB liability - Ending	<u>\$ 18,530,589</u>	<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	\$ 1,143,000	\$ 1,077,000	\$ 1,041,000	\$ 1,011,000	\$ 948,000	\$ 1,287,000
Net investment income	(283,267)	2,973,978	199,294	399,132	588,700	654,929
Benefit payments	(524,110)	(520,381)	(516,535)	(536,228)	(525,000)	(368,000)
Other OPEB Administrative expense	(1,242)	(1,541)	(1,598)	(2,874)	(1,803)	(1,485)
Other	4,335	1,919	1,781	271,018	--	8,474
Net change in plan fiduciary net position	338,716	3,530,975	723,942	1,142,048	1,009,897	1,580,918
Plan fiduciary net position - Beginning	<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>	<u>6,468,430</u>
Plan fiduciary net position - Ending	<u>\$ 14,794,926</u>	<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>\$ 3,735,663</u>	<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	79.84%	74.82%	58.57%	54.47%	51.71%	49.03%
Covered-employee payroll	\$ 6,332,000	\$ 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	59.00%	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, 2023	\$ 1,058,000	\$ 1,058,000	\$ --	\$ 6,301,000	16.79%
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, 2023**

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The actuarially determined annual required contributions for the fiscal year ended June 30, 2023 was developed in the July 1, 2020 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2023:

Actuarial valuation date	July 1, 2020
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	15.3 as of June 30, 2023
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 ERS
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 7.5%, declining to a rate of 4.7% after 13 years
HMO	Initial rate of 7.5%, declining to a rate of 4.7% after 13 years
Part B	Initial rate of 5%; declining to a rate of 4.7% after 10 years
Dental	Initial rate of 5% for first year, followed by 4% for all future years
Vision	Initial rate of 0% for first year, 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).

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SUPPLEMENTARY INFORMATION

**Department of Water
County of Kauai
SCHEDULE I - SCHEDULE OF UTILITY PLANT-IN-SERVICE
Fiscal Year Ended June 30, 2023**

	Balance July 1, 2022	Additions	Reductions/ Transfers	Balance June 30, 2023
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	76,693	--	12,317,698
Pumping	49,464,347	33,733	--	49,498,080
Water treatment	10,415,202	--	--	10,415,202
Transmission and distribution	263,473,671	3,982,123	(22,838)	267,432,956
Total utility plant capital assets	<u>335,594,225</u>	<u>4,092,549</u>	<u>(22,838)</u>	<u>339,663,936</u>
General Plant	24,774,299	666,588	--	25,440,887
Intangible assets				
Easements	35,722	--	--	35,722
Software	1,954,538	234,122	--	2,188,660
Total intangible assets	<u>1,990,260</u>	<u>234,122</u>	<u>--</u>	<u>2,224,382</u>
	<u>\$ 363,666,206</u>	<u>\$ 4,993,259</u>	<u>\$ (22,838)</u>	<u>\$ 368,636,627</u>
	Balance July 1, 2022	Additions	Reductions/ Transfers	Balance June 30, 2023
Accumulated depreciation and amortization				
Utility plant				
Source	\$ 6,259,009	\$ 259,141	\$ --	\$ 6,518,150
Pumping	30,861,133	1,328,917	--	32,190,050
Water treatment	9,379,270	56,665	--	9,435,935
Transmission and distribution	70,415,589	4,203,584	(19,663)	74,599,510
Total utility plant accumulated depreciation	<u>116,915,001</u>	<u>5,848,307</u>	<u>(19,663)</u>	<u>122,743,645</u>
General Plant	10,582,365	941,048	--	11,523,413
Intangible assets	1,858,088	105,675	--	1,963,763
	<u>\$ 129,355,454</u>	<u>\$ 6,895,030</u>	<u>\$ (19,663)</u>	<u>\$ 136,230,821</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, 2023
(All Dollars in Thousands)**

	2023	2022	2021	2020	2019
Statements of Net Position					
Utility plant in service	\$ 368,637	\$ 363,666	\$ 349,460	\$ 347,015	\$ 345,665
Net Position					
Net investment in capital assets	\$ 196,425	\$ 192,553	\$ 193,552	\$ 163,824	\$ 160,382
Restricted for capital activity and debt service	5,205	2,623	3,575	2,050	905
Unrestricted	19,196	27,277	23,447	32,387	36,807
	<u>\$ 220,826</u>	<u>\$ 222,453</u>	<u>\$ 220,574</u>	<u>\$ 198,261</u>	<u>\$ 198,094</u>
Statements of Revenues, Expenses and Changes in Net Position					
Resources					
Water Sales	\$ 28,255	\$ 28,473	\$ 25,321	\$ 26,672	\$ 27,959
Other	2,659	2,407	2,405	2,341	2,599
	<u>30,914</u>	<u>30,880</u>	<u>27,726</u>	<u>29,013</u>	<u>30,558</u>
Operating Expenses					
Administrative and general	8,689	8,102	9,550	10,895	8,951
Depreciation and amortization	6,898	7,021	7,110	7,190	6,865
Transmission and distribution	5,998	4,531	5,342	5,210	4,047
Power and pumping	3,197	3,197	2,904	2,941	3,034
Accounting and collection	1,043	957	1,257	1,151	1,200
Other	3,153	3,453	6,093	3,579	3,013
	<u>28,978</u>	<u>27,261</u>	<u>32,256</u>	<u>30,966</u>	<u>27,110</u>
Nonoperating expenses	(2,654)	(4,467)	(2,775)	(1,384)	(923)
Contributions	4,701	2,727	4,000	3,505	6,731
	<u>\$ 3,983</u>	<u>\$ 1,879</u>	<u>\$ (3,305)</u>	<u>\$ 168</u>	<u>\$ 9,256</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, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated March XX, 2024.

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 deficiencies described in the accompanying schedule of findings as items 2023-001, 2023-002, and 2023-003 to be material weaknesses.

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 deficiency described in the accompanying schedule of findings as item 2023-004 to be a significant deficiency.

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.

Honolulu, Hawaii
March XX, 2024

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SCHEDULE OF FINDINGS

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS
Fiscal Year Ended June 30, 2023**

2023-001 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, 2023:

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.

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, 2023**

2023-001 IT General Control Deficiencies (Continued)

Effect:

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

Logical 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.
- The Department has completed several vulnerability assessments performed by independent contractors and external third-parties. Management should carefully review the findings from these assessments and develop a plan to prioritize and address the findings.

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 74 to 80.

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2023**

2023-002 Timeliness of Processing Monthly Billing Statements to Customers

Criteria:

The Department's main source of revenue is derived from the sale of water to approximately 23,000 customer accounts on the island of Kauai. Water charges are comprised of both a fixed service charge and a variable use charge. Monthly billing statements based on actual water consumption should be processed and mailed to customers in a timely manner in order to ensure the completeness and accuracy of water sales recorded by the Department and the timely receipt of amounts owed from the Department's customers for the provision of water and related services.

Condition:

The Department's water sales for the fiscal year ended June 30, 2023 was understated by approximately \$1,018,000. An adjusting journal entry to correct the financial statements as of and for the fiscal year ended June 30 2023 has been recorded by management.

Cause:

During the fiscal year ended June 30, 2023, there was a rapid increase in the number of customer water meters that could not be automatically transmitted during the monthly water meter reading and customer billing cycle. This issue is primarily attributed to the failure of transponder units, which is a component of the automated meter reading equipment that is connected to the water meter. When the transponder unit fails, it cannot wirelessly transmit the customer's water consumption data to the Department's meter reader system, which serves as the basis for the amount charged to the customer each month.

Management determined that it was impractical for the Department to obtain manual reads from water meters that could not be automatically transmitted due to the limited number of meter reader and field collection personnel available to perform the task. As a result, estimates of water consumption were used in order to properly recognize water sales revenue in a timely manner. However, this created the following issues that resulted in lower than expected water sales revenue:

1. Management's estimate assumed lower-than-average water consumption for impacted customers to minimize the likelihood of overstating water sales revenue. However, it also resulted in estimated water sales revenue that was likely to be lower than the amount that the Department was entitled to had actual water consumption data been readily available.

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2023**

**2023-002 Timeliness of Processing Monthly Billing Statements to Customers
(Continued)**

2. During 2023, the Department's billing system was configured to automatically suspend billings for customer accounts that had more than two consecutive estimated billings. This is an automated control designed to initiate the manual investigation of water meters that could not produce actual consumption data. However, due to the limited number of meter reader and field collection personnel, the manual investigation of impacted water meters were not performed in a timely manner resulting in impacted customer accounts that were not billed for water usage.

Effect:

The inability to process monthly billing statements, based on actual water consumption data, to customers in a timely manner may result in material misstatements in water sale revenue reported by the Department. It may also prevent the Department from being able to collect all of the consideration to which it is entitled for providing water and related services to the Department's customers.

Recommendation:

We recommend that the Department perform the following:

- Continue its effort to replace meter transponder units as part of the Department's Meter and Transponder Replacement Project.
- Evaluate the current number of meter reader and field collection personnel to ensure that that the number of personnel is sufficient to retrieve actual water consumption data and process monthly billing statements in a timely manner.
- Evaluate whether the Department's billing systems should be reconfigured to allow for more estimated billings to occur before automatically suspending billings that would require a manual read.

Views of Responsible Officials and Planned Corrective Action:

See management's Corrective Action Plan on pages 74 to 80.

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2023**

2023-003 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:

Net position as of June 30, 2022 has been restated to correct the following misstatements. As of June 30, 2022, construction in progress included certain costs that should not have been capitalized, an estimated pollution remediation liability related to one of the Department's water tanks was not recorded, and accrued compensated absences included estimated contributions to the pension and OPEB plans that should not have been included as an additional liability. The effects of the restatement was to decrease construction in progress by \$2,578,137, increase the pollution remediation liability by \$3,334,682, decrease accrued compensated absences by \$302,780 and decrease net position by \$5,610,039 as of June 30, 2022.

Cause:

During the year-end financial close and reporting process for the fiscal year ended June 30, 2022, 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 74 to 80.

**Department of Water
County of Kauai
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2023**

2023-004 Improve Procedures to Identify and Account for Contracts

Criteria:

The Department enters into contracts for many types of goods and services. Management should analyze all of the Department's contracts to determine the appropriate accounting and financial reporting treatment in accordance with GAAP.

Condition:

In connection with the 2023 year-end financial closing and reporting process management needed to compile and analyze certain contracts in order to determine the proper accounting and financial reporting treatment of these contracts in accordance with GAAP.

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 74 to 80.

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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



JOSEPH E. TAIT
MANAGER AND CHIEF ENGINEER

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

March 22, 2024

Mr. Lawrence Chew
N&K CPAs, Inc.
999 Bishop Street, Suite 2200
Honolulu, HI 96813

Dear Mr. Chew:

Thank you for the opportunity to provide comments on the *Schedule of Findings* issued in connection with the financial statement audit of Department of Water, County of Kauai (Department) for the fiscal year ended June 30, 2023.

We commend N&K CPAs audit team 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 to and interact with your audit team.

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

Sincerely,

A handwritten signature in black ink that reads "JE Tait".

Joseph E. Tait
Manager and Chief Engineer

Department of Water, County of Kaua'i
CORRECTIVE ACTION PLAN
Fiscal Year Ended June 30, 2023

**Ref.
No.**

SCHEDULE OF FINDINGS

2023-001 IT General Control Deficiencies

Auditor's

Recommendation: The Department should 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.
- The Department has completed several vulnerability assessments performed by independent contractors and external third-parties. Management should carefully review the findings from these assessments and develop a plan to prioritize and address the findings.

Change management

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

**Corrective
Action:**

IT concurs with the auditor's findings and recommendations.

Logical security

- A reminder of the current policy and procedures for on/offboarding will be communicated to all Division and Section Heads.
- A reminder of the current password security policy in place will be communicated to all employees.
- System analysis continues with the assistance of IT professionals and peers to help define the policies and procedures to be implemented. Department Policies and Procedures will be developed for use by Management upon recommendations from the IT Steering Committee and retained IT consultants contracted by the Department.
- The Department currently utilizes Microsoft Defender to implement our Security Awareness Program. We have set up training and simulation for peer groups and will roll out when ready.
- Efforts have been underway to address critical issues with hardware, software, and system security. We have budgeted for a Managed Services Provider (MSP) contract. Measure of success will be MSP contracted. The Department is currently in the process of hiring another IT Specialist to assist with addressing the findings corrective action.

Department of Water, County of Kaua'i
CORRECTIVE ACTION PLAN (Continued)
Fiscal Year Ended June 30, 2023

**Ref.
No.**

SCHEDULE OF FINDINGS (Continued)

2023-001

IT General Control Deficiencies (Continued)

**Corrective
Action:**

Change Management

The Department has been and continues to work through the process of creating a stable environment; and will be creating a process of change authorization, unit testing, system test and implementation. Database schema and use cases being developed. Planned implementation using software or dev IIS server and SQL Server. Software will be written or purchased.

End Date:

Continuous; on-going.

**Responding
Person(s):**

Wayne Takabayashi
Phone: (808) 245-5412

Department of Water, County of Kaua'i
CORRECTIVE ACTION PLAN (Continued)
Fiscal Year Ended June 30, 2023

**Ref.
No.**

SCHEDULE OF FINDINGS (Continued)

2023-002 Timeliness of Processing Monthly Billing Statements to Customers

Auditor's

Recommendation: The Department should perform the following:

- Continue its effort to replace meter transponder units as part of the Department's Meter and Transponder Replacement Project.
- Evaluate the current number of meter reader and field collection personnel to ensure that the number of personnel is sufficient to retrieve actual water consumption data and process monthly billing statements in a timely manner.
- Evaluate whether the Department's billing systems should be refigured to allow for more estimated billings to occur before automatically suspending billings that would require a manual read.

**Corrective
Action:**

The Fiscal Division concurs with the auditors finding and recommendations. We continue to work collaboratively with the Operations Division in planning the targeted route(s) for transponder replacements. Our priority to continue the momentum gained over the last several months surrounding the transponder replacement count. It is imperative we keep up with the placement of orders for additional equipment.

With respect to the billing statements, we continue to work diligently to correct and adjust affected customer accounts. In our current operating environment, we are not adequately staffed to handle and resolve the volume of billing issues we are currently facing. Our efforts continue to be challenged due to staffing constraints. The Billing Section, including the Meter Readers are primarily the key driving force in bringing in the Department's main source of revenues – Water Sales. I will request additional positions in the FY2025 budget with the goal to ultimately lay the foundation for a strong and sound Billing Section, provide for adequate coverage during paid time off, and effectively minimize the impact of vacancies due to retirement or attrition.

The billing software has the ability to allow for processing of estimated bills, up to a specified number of months. We will revisit automatically billing on estimated readings once the Department's Rules and Regulations have been approved.

End Date: Continuous monitoring; on-going. We anticipate a recurring finding for FY2025.

**Responding
Person(s):**

Renee M. Yadao, Waterworks Controller
Phone: (808) 245-5422

Ref. No. **SCHEDULE OF FINDINGS (Continued)**

2023-003 Improve Internal Communication

Auditor's

Recommendation: The Department should perform the following:

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

Corrective Action:

Fiscal Division

The Fiscal Division acknowledges the importance of effective communication, especially when the result has an impact on financial statement amounts. With respect to the construction-in-progress (CIP) restatement, it involved several projects that continued to roll from one fiscal year to the next without a clear understanding of the status of these projects. This was primarily due to personnel within the Engineering Division retiring and leaving with the institutional knowledge and history of the projects. We will continue to follow up on existing CIP projects with the Engineering Division as part of our annual year-end closing procedures and request a thorough understanding of proposed future projects during the annual operating budget process.

With respect to the pollution remediation liability, this was primarily due prior leadership in the Fiscal Division's lack of awareness of the issues surrounding Paua Tank. Going-forward, we will continue to communicate and work collaboratively with the Engineering Division and request to be informed if and when these matters recur in the future. Our goal is to maintain accurate records of our assets and liabilities that ultimately impact financial reporting and financial statement amounts.

Administration Division

The Manager and Chief Engineer (MCE) continues to hold leadership meetings with both Division Managers and Section Managers, and as well with Departmental staff, as requested by employees or as required. Minutes are taken by the Commission Support Clerk and, in her absence, the MCE. Employees frequently visit the MCE's office throughout the week to inform, converse, and ask questions of the Manager. This has been a standing practice and invitation to all employees since October 2021.

To enhance the internal communication within the Department, the MCE has re-instituted an employee suggestion program which was discontinued years ago. Titled, "Water First," the program has received numerous employee suggestions over the past two months when the new program was launched.

Department of Water, County of Kaua'i
CORRECTIVE ACTION PLAN (Continued)
Fiscal Year Ended June 30, 2023

**Ref.
No.**

SCHEDULE OF FINDINGS (Continued)

2023-003 Improve Internal Communication (Continued)

**Corrective
Action:**

Administration Division

A suggestion proposed was to re-institute the regular all-hands meetings that allowed all Departmental staff to attend one of two Manager-conducted meetings to exchange Department-wide updates, plans, items of information, actions, and activities throughout the Department and to ask questions of the Manager for all employees to hear at the same time. This was another program eliminated over time from past leadership.

End Date:

Fiscal Division

On-going; continuous.

Administration Division

Completed; implemented.

**Responding
Person(s):**

Renee M. Yadao, Waterworks Controller
Phone: (808) 245-5422

Joseph E. Tait, Manager and Chief Engineer
Phone: (808) 245-5403

**Ref.
No.**

SCHEDULE OF FINDINGS (Continued)

2023-004 Improve Procedures to Identify and Account for Contracts

Auditor's

Recommendation: The Department should perform the following:

- Design and implement 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.

**Corrective
Action:**

This task was jointly owned by the Fiscal Division and the IT Section for coordinating the assemblage of all Department-wide Contracts, Leases, Agreements, and Licenses for inclusion into an IT-populated database that would be globally utilized within the Department to access and track when the various legal documents are in need of renewing, expiring, transferring, updating, and/or replacing. Fiscal was to assemble the various areas of subject matter documents from each Division, screen and confirm the documents were current and valid, and provide the final, cleared documents to IT for inclusion into a global database for employee use.

Due to change in Fiscal leadership, who was not here long enough to be aware of what documents existed throughout the Department, combined with the departure of several Fiscal Division staff and the lack of adequate IT and Administration Division staff, this task remains incomplete and should be included in FY24-25 objectives.

End Date: In process; December 2024

**Responding
Person(s):**

Joseph E. Tait, Manager and Chief Engineer
Phone: (808) 245-5403

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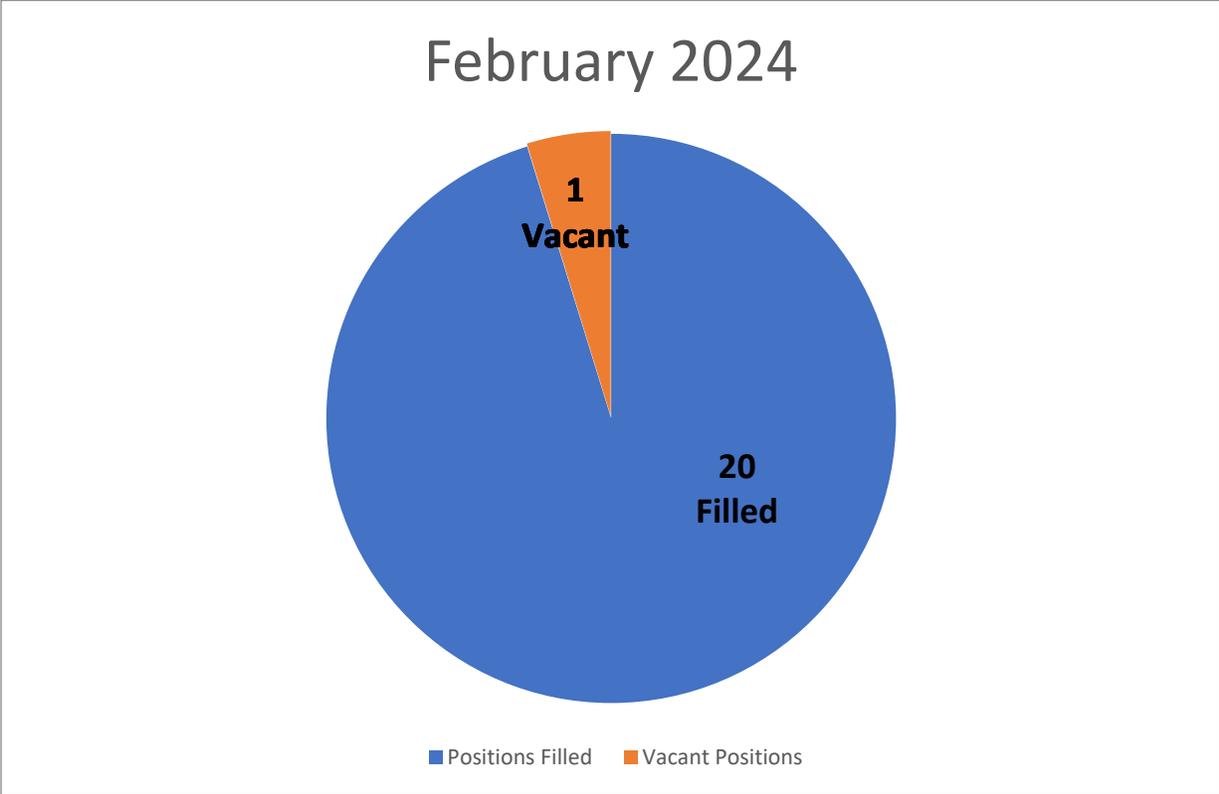
STAFF

REPORTS

FISCAL DIVISION DASHBOARD



Staffing

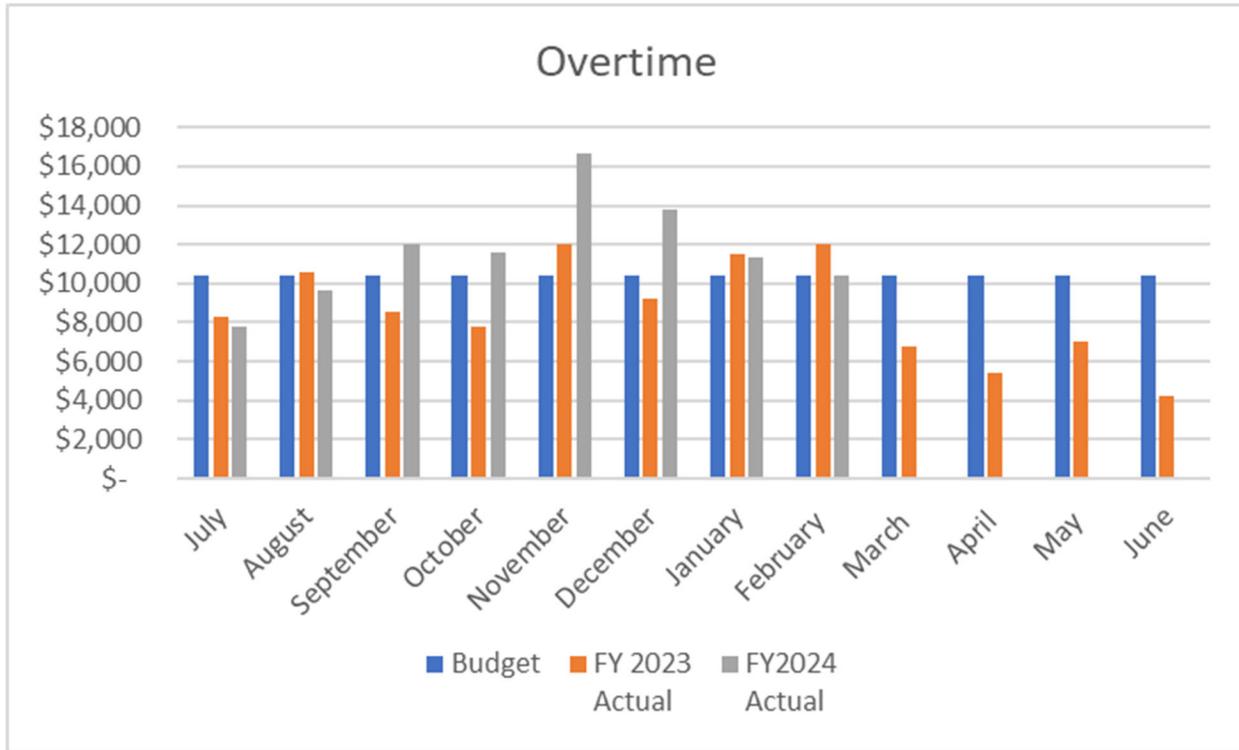


- Position 2302. Customer Service Representative I. Vacant as of February 16, 2024.

FISCAL DIVISION DASHBOARD



Overtime

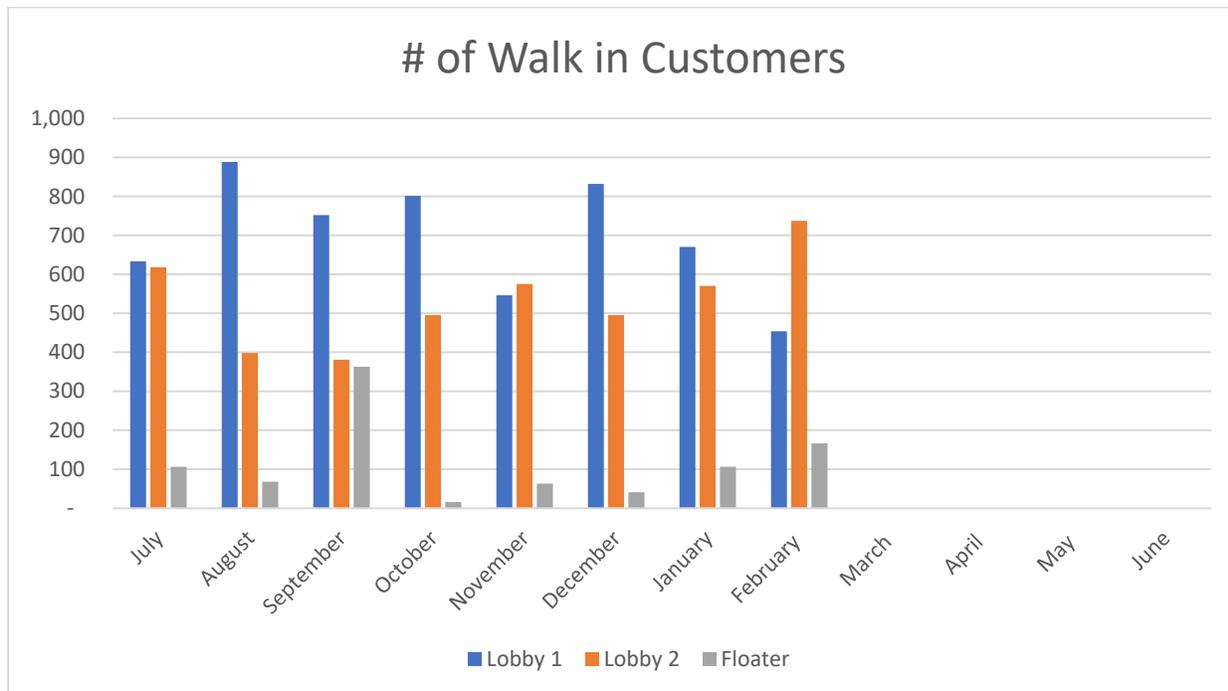


Note: February 2024 includes amounts posted from February 1st through February 15th (pay date February 29th) and “pending” transactions from February 16th through February 29th. Once HR Payroll reconciles and processes the payroll closing batches, the Central Accounting Division will post the payroll transactions to the general ledger.

FISCAL DIVISION DASHBOARD

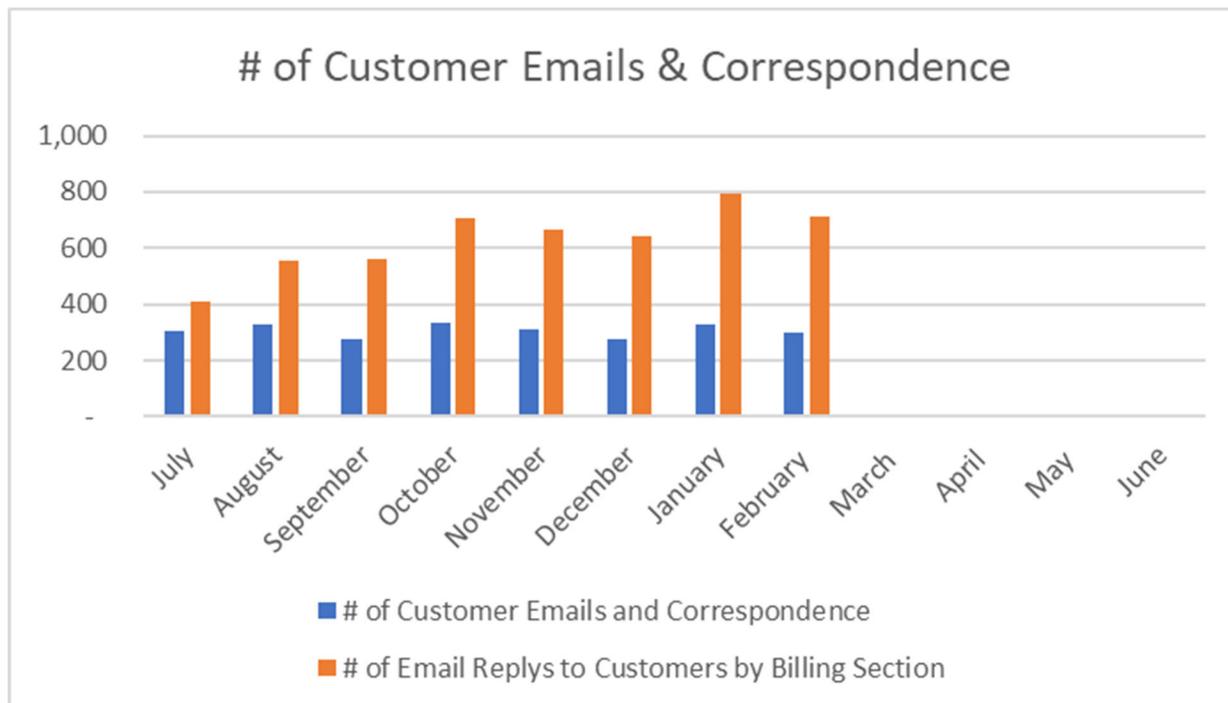


Walk-In Customers



Note: The Billing Section currently operates two (2) payment windows, Lobby 1, and Lobby 2. There is a designated “floater” to assist at the window during breaks or for short-staffing coverage. There is a total of 19 meter reading routes island-wide with varying billing cycles.

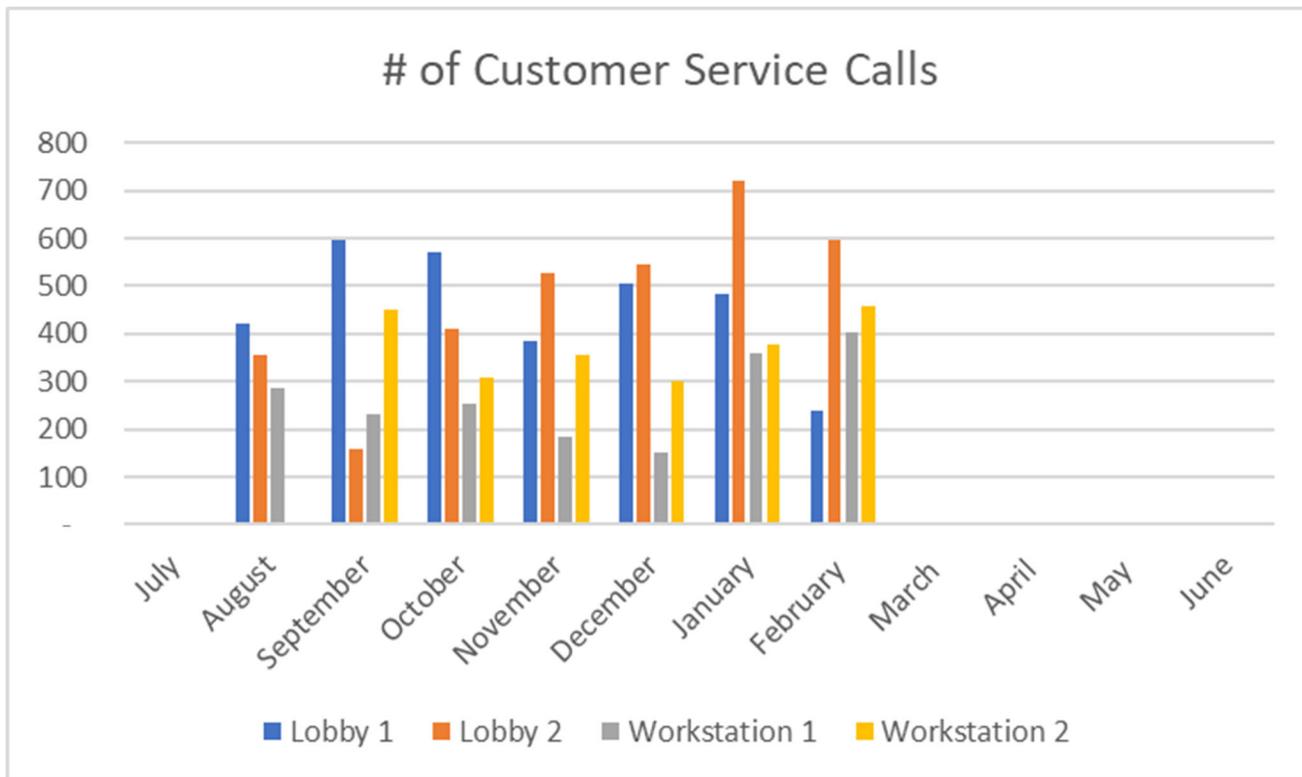
Customer Emails & Correspondence



FISCAL DIVISION DASHBOARD



Customer Service Calls



Note: In addition to the two (2) payment windows, Lobby 1 and Lobby 2, there are two (2) Workstations, Workstation 1, and Workstation 2. The Billing Team of four (4) employees assist with the phone calls, respond to emails, and assist walk-in customers with payments and/or questions surrounding their account. They also provide assistance to the Meter Readers in the field.

Department Of Water Budget Report for February 2024

	February 2024			Fiscal Year 2024			
	Budget	Actual	Variance	Year to Date Budget	Year to Date Actual	Variance	Variance %
Operating Revenue	\$ 2,777,499.00	\$ 1,926,033.75	\$ (851,465.25)	\$ 22,219,992.00	\$ 24,334,178.02	\$ 2,114,186.02	9.5%
Expenses							
Labor *	\$ 1,075,032.00	\$ 1,028,074.21	\$ 46,957.79	\$ 8,600,256.00	\$ 8,226,033.72	\$ 374,222.28	4.4%
Services	\$ 828,127.00	\$ 475,969.96	\$ 352,157.04	\$ 6,625,016.00	\$ 3,456,495.54	\$ 3,168,520.46	47.8%
Utilities & Materials	\$ 647,822.00	\$ 253,245.12	\$ 394,576.88	\$ 5,182,576.00	\$ 4,014,929.93	\$ 1,167,646.07	22.5%
Total Operating Expenses	\$ 2,550,981.00	\$ 1,757,289.29	\$ 793,691.71	\$ 20,407,848.00	\$ 15,697,459.19	\$ 4,710,388.81	23.1%
Debt Service Principal & Interest	\$ 416,572.25	\$ 348,281.61	\$ 68,290.64	\$ 6,332,269.00	\$ 6,277,107.73	\$ 55,161.27	0.9%
Operating and Debt Expenses	\$ 2,967,553.25	\$ 2,105,570.90	\$ 861,982.35	\$ 26,740,117.00	\$ 21,974,566.92	\$ 4,765,550.08	17.8%
Net Income (Loss)	\$ (190,054.25)	\$ (179,537.15)	\$ 10,517.10	\$ (4,520,125.00)	\$ 2,359,611.10	\$ 6,879,736.10	152.2%

* Current month's labor is estimated

Capital Projects and Purchases**

	Fiscal Year Budget	February FYD 2024 Actual	Remaining Budget
Water Utility Funded Projects ***			
IT Capital Purchases	\$ 2,505,000.00	\$ 25,462.81	\$ 2,479,537.19
Job 09-01 Yamada Tank	-	27,711.62	(27,711.62)
Job 11-07 HE-03 Hanapepe & Koloa Well MCC	-	23,115.00	(23,115.00)
Job 16-04 Kilauea Wells Rehab	-	196,658.74	(196,658.74)
Job 18-03 Kuhio Hwy Hardy Oxford 16" Main	2,000,000.00	13,532.06	1,986,467.94
Job 23-02 Kuamoo Rd 8" Replacement	-	53,215.00	(53,215.00)
Job 23-03 Kuhio Hwy Papaloa to Waikaea	-	51,918.73	(51,918.73)
Job 23-07 Rehabilitate Puupilo Steel Tank	-	65,421.45	(65,421.45)
Job 23-14 Wailua Homesteads Tank	3,750,000.00	118,543.74	3,631,456.26
Ops Capital Purchases	1,753,491.00	273,324.44	1,480,166.56
Projects with budget but no activity	5,515,000.00		5,515,000.00
	\$ 15,523,491.00	\$ 848,903.59	\$ 14,674,587.41

\$	15,523,491.00	\$	848,903.59	\$	14,674,587.41
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FRC Funded Projects

Job 04-08 Drill Kapaa Homestead Well 4

\$	700,000.00	\$	68,980.00	\$	631,020.00
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Projects with budget but no activity

	400,000.00		-		400,000.00
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\$	1,100,000.00	\$	68,980.00	\$	1,031,020.00
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Build America Bonds Funded Projects

Job 09-01 Yamada Tank

\$	-	\$	52,373.11	\$	(52,373.11)
----	---	----	-----------	----	-------------

Job 02-06 Kilauea Tank

	-		12,942.24		(12,942.24)
--	---	--	-----------	--	-------------

Projects with budget but no activity

	6,100,000.00		-		6,100,000.00
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\$	6,100,000.00	\$	65,315.35	\$	6,100,000.00
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State Allotment Funded Projects

Job 09-01 Yamada Tank

\$	-	\$	1,752,406.13	\$	(1,752,406.13)
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17-10 KW07 Paua Valley Tank Repair

	-		195,691.44		(195,691.44)
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Projects with budget but no activity

	10,600,000.00				10,600,000.00
--	---------------	--	--	--	---------------

\$	10,600,000.00	\$	1,948,097.57	\$	8,651,902.43
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State Revolving Funded Projects

Job 09-01 Yamada Tank

\$	-	\$	4,013,958.24	\$	(4,013,958.24)
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Projects with budget but no activity

	\$5,000,000.00				\$986,041.76
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\$	5,000,000.00	\$	4,013,958.24	\$	(3,027,916.48)
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Total Capital Projects

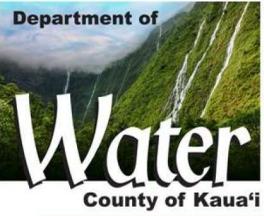
\$	38,323,491.00	\$	6,945,254.75	\$	27,429,593.36
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** Capital projects and capital purchases with no activity in the 2024 fiscal year are presented in the aggregate

*** Zero balance budgets are prior year projects awaiting supplemental budget and Board approval

Selected Divisions

	February 2024			Fiscal Year 2024			
	Budget	Actual	Variance	Year to Date Budget	Year to Date Actual	Variance	Variance %
Engineering	\$ 454,613.00	\$ 415,170.03	\$ 39,442.97	\$ 3,636,904.00	\$ 2,138,454.49	\$ 1,498,449.51	41.2%
Fiscal	222,259.00	203,103.44	19,155.56	1,778,072.00	1,701,182.71	76,889.29	4.3%
Operations	1,257,036.00	778,097.47	478,938.53	10,056,288.00	8,244,245.48	1,812,042.52	18.0%
	\$ 1,933,908.00	\$ 1,396,370.94	\$ 537,537.06	\$ 15,471,264.00	\$ 12,083,882.68	\$ 3,387,381.32	21.9%



OPERATIONS DASHBOARD

Ops Highlights:

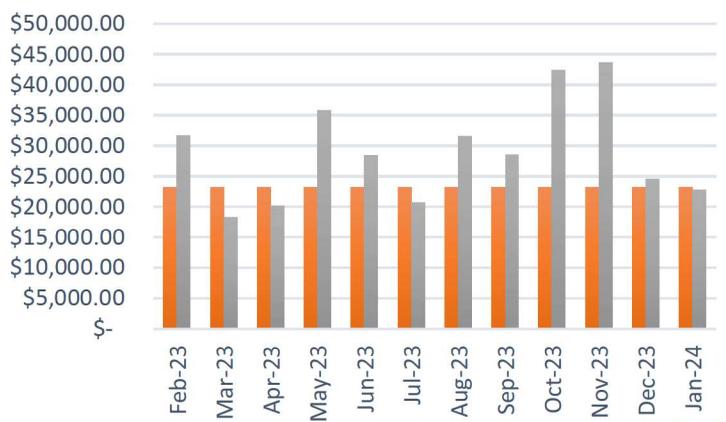
1. Continuous recruiting for Electronics Tradesperson and Pipefitter Helper.
2. Started the Wailua/Kapa'a meter transponder changeout. 1152 meter register/trans en route.
3. Water Service Investigators - 11 leaks were located and spotted along with assisting locating meter boxes for the Wailua/Kapa'a meter changeout.

Monthly Water Audit
Feb 2023 - Jan 2024

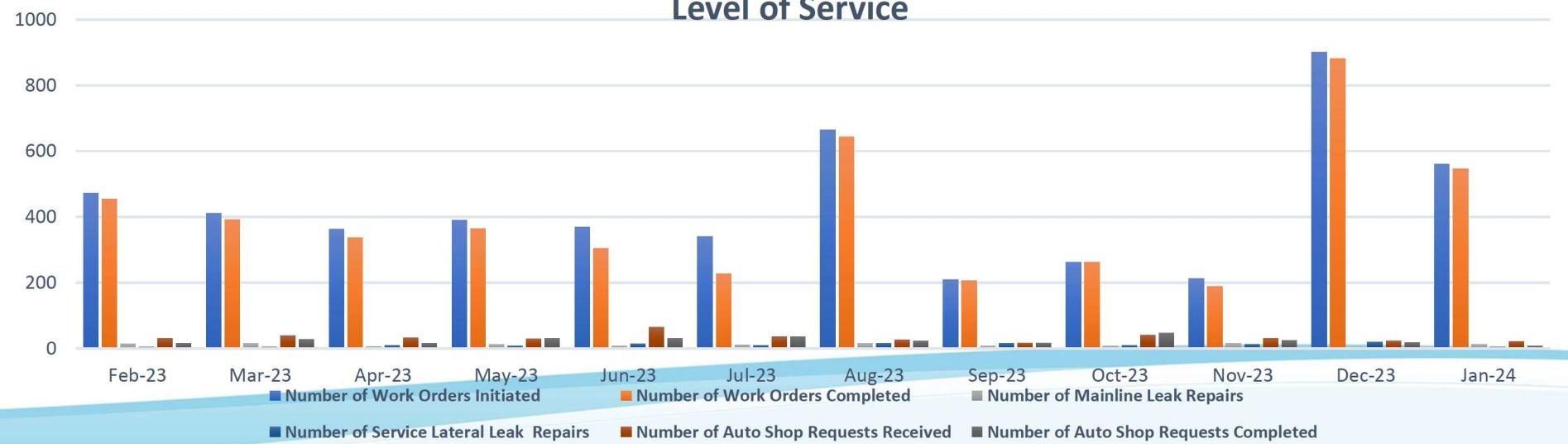


	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Produced (Kgals)	326,932	308,539	350,219	319,002	350,766	413,260	389,372	444,660	433,059	384,904	325,580	354,475
Customer Read (Kgals)	270,820	255,415	279,569	252,080	262,590	296,300	307,048	339,771	325,421	276,529	272,639	297,225
Non-Rev Water (Kgals)	56,112	53,124	70,650	66,922	88,176	116,960	82,324	104,889	107,638	108,375	52,941	57,250
Financial Impact	\$69,265	\$65,577	\$87,212	\$82,610	\$108,846	\$144,377	\$101,622	\$129,477	\$132,870	\$133,780	\$65,351	\$70,671

Overtime



Level of Service



OPERATIONS

	Last Month		Current Month		Previous FY		Current FY	
					Year to Date		Year to Date	
STAFFING								
Budgeted Staff Vacancies	50	7	50	7	48	9	50	7
OVERTIME								
Budget (\$) Actual (\$)	\$23,283.33	\$24,586.99	\$23,283.33	\$22,791.79	\$162,983.33	\$177,444.24	\$162,983.33	\$214,322.43
FLEET MANAGEMENT								
# of Vehicles Active per day	38		41		40		42	
# of Vehicles Active per month	749		865		802		872	
METER PROGRAM								
# of Existing Meters Replaced	2		1		25		14	
# of Existing Meters Repaired	720		397		320		1385	
# of New Meters Installed	1		3		62		44	
# of New Laterals Installed	0		0		15		7	

OPERATIONS



LEVEL OF SERVICE

	Last		Current		Previous		Current	
	Month	Month	Month	Month	FY YTD	FY YTD	FY YTD	FY YTD
# of Work Orders Initiated	901		561		1541		3156	
# of Work Orders Completed	881		547		1291		2960	
# of Mainline Leak Repairs	4		13		71		79	
# of Service Lateral Leak Repairs	21		4		81		94	
# of Calls for Service	176		219		1312		1410	
# of Temporary Hydrant Meters Installed	1		2		15		20	
# One Call Request Received Completed	24	24	24	24	194	194	297	296
# of Auto Shop Requests Received Completed	24	20	24	20	291	247	207	185
# of Hydrant Hits	3		3		16		18	

WATER AUDIT

	Last	Current Month	Previous	Current
	Month		FY YTD	FY YTD
Water Produced (Million Gallons)	325.580	354.475	2817.097	2745.310
Customer Meter Reading (Million Gallons)	272.639	297.225	2373.326	2114.933
Non-Revenue Water (Million Gallons)	52.941	57.250	443.771	630.377
Non-revenue %	16%	16%	16%	23%
Financial Impact	\$65,351.43	\$70,670.55	\$547,799.80	\$778,149.58



ENGINEERING DASHBOARD

	Last Month	Current Month	Previous FY Year to Date	Current FY Year to Date
STAFFING				
Budgeted Staff Vacancies	23	5	23	4
OVERTIME				
Budget (\$) Actual (\$)	\$4,900	\$19,700	\$4,900	\$24,100
			\$39,300	\$51,800
			\$39,300	\$146,600

	Last Month	Current Month
PROJECT MANAGEMENT		
DOW Projects In Design In Construction	30	4
Private Projects Design Approved In Construction	11	26
Private Projects Construction Completed	1	0

CIP Project Highlights:

- Kapa'a Homesteads 325' Tanks
 - Contracting
- Kapa'a Homesteads Well No. 4 Pump and Controls
 - Direct Negotiations
- Weke, 'Anae, Mahimahi and He'e Roads Water Main Replacement
 - Bid Opens 3/22
- UH CTAHR Experimental Station 605' Tank
 - Received confirmation on tank site and pipeline/road
 - Performing geotechnical borings 4/4
- Puupilo 0.125 MG Steel Tank Rehabilitation
 - Reviewing Report
- Wailua Homesteads 538' Tank Construction
 - Reviewing PDR

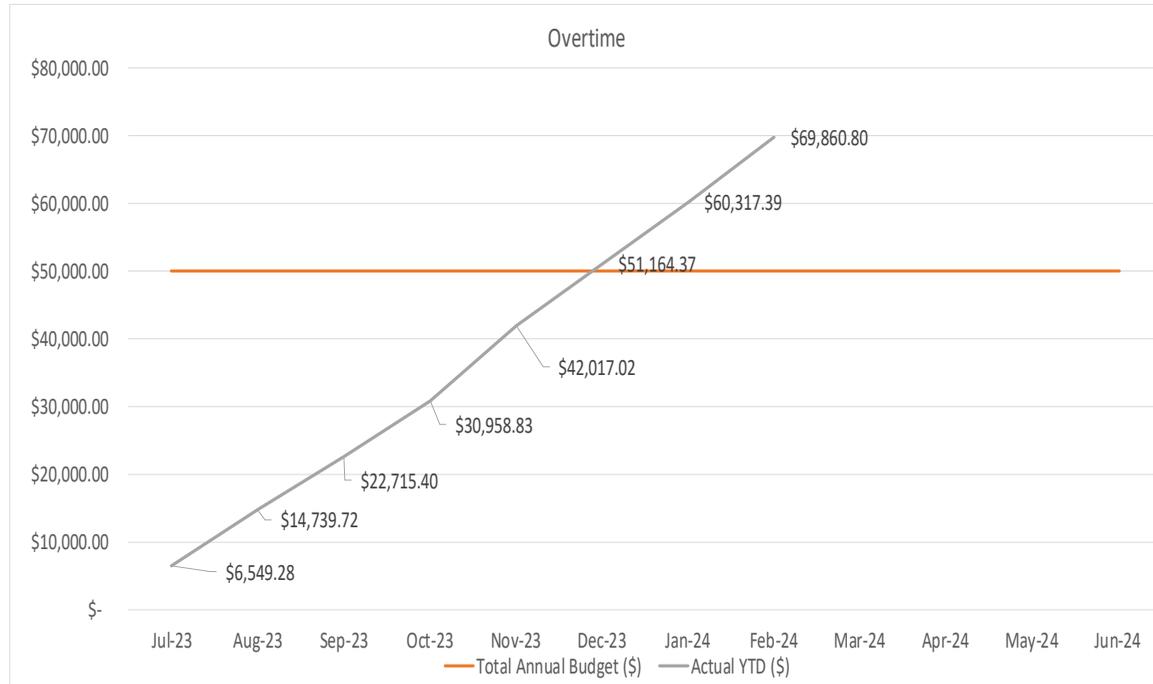
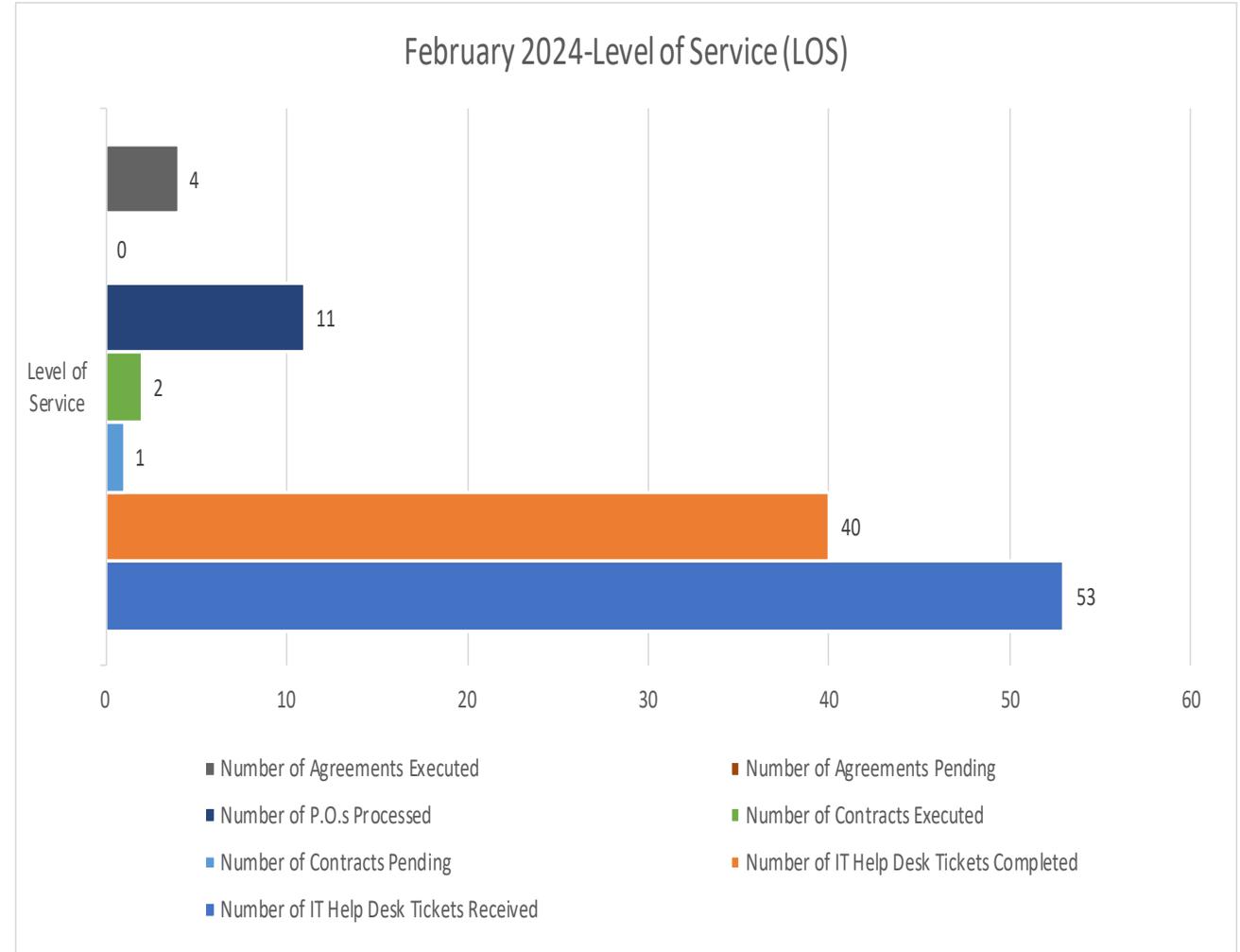
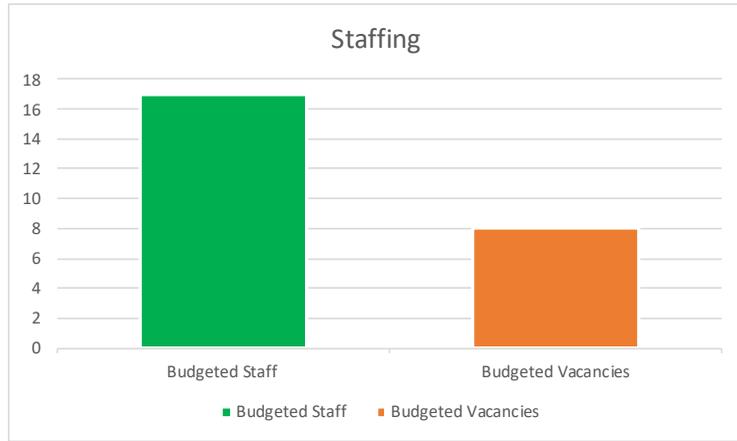
ENGINEERING DASHBOARD

	Last Month		Current Month		Previous FY Year to Date		Current FY Year to Date	
WATER RESOURCES AND PLANNING								
Number of Customer Requests Received Completed								
Subdivision Applications, Zoning, Land Use and Variance Permits	4	14	4	1	47	56	51	57
ADU/ARU Clearance Applications	4	0	1	3	12	31	13	34
Building Permits	132	106	145	165	950	960	1,095	1,125
Water Service Requests	21	33	25	15	146	163	171	178
Government Records Request	1	0	3	3	12	13	15	16
Backflow Inspection # of Devices Tested	120		73		730		803	

DOW Project Highlights:

- KWUDP Update
 - Pre-Meetings with Key Community Members, 3/14
 - Meeting with DHHL beneficiaries on 3/21, 3/28
- Water System Improvements Plan (WSIP)
 - Evaluating CIP project list
- Lead and Copper Rule Revisions (LCRR) Update
 - Second week of field work performed week of 2/26 in Puhilīhu'e-Kapa'a Water System and Kalāheo-Kōloa Water System
 - Third week of field work tentatively scheduled for 4/1

ADMINISTRATION DASHBOARD

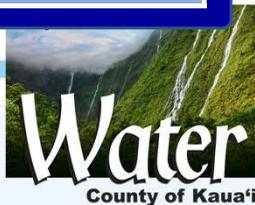


ADMINISTRATION

	Jan-24		Feb-24		Previous FY YTD		Current FY YTD	
STAFFING								
Budgeted Staff vs Vacancies (Admin-HR-IT-PR)	17	8	17	8	10	7	17	8
OVERTIME								
Budget (\$) vs Actual (\$)	\$ 4,166.67	\$ 9,153.02	\$ 4,166.67	\$ 9,543.41	\$ 33,333.33	\$ 63,923.32	\$ 33,333.33	\$ 69,860.80

	Jan-24		Feb-24		Previous FY YTD		Current FY YTD	
LEVEL OF SERVICES								
# of IT Help Desk Tickets Received Completed	65	41	53	40	137	104	358	235
# of Legal Claims Outstanding Resolved	0	0	0	0	2	0	0	0
# of Contracts Pending Executed	2	1	1	2	3	3	1	10
# of Purchase Orders Processed	23		11		99		182	
# of Agreements Pending Executed	1	1	0	4	7	23	0	28
# of MOU MOA Pending	0	0	0	0	0	1	0	0
# of MOU MOA Executed	0	0	0	0	0	0	1	0
# of Customer Remarks	0		0		2		1	
# of Customer Compliments	1		0		3		5	

Notes: DOW Dashboard data tracking started November 2022 & Legal claims are compiled quarterly as of March, June, September, & December



DEPARTMENT OF WATER

"Water has no Substitute – Conserve it!"

INFORMATION & EDUCATION SPECIALIST REPORT

March 21, 2024

Public Notices and Announcements

All news releases are sent to statewide media partners, published on the Department of Water's (DOW) Facebook page and the County of Kauai's website at www.kauai.gov/press-releases. Notices labeled as a Public Service Announcement (PSA) are shared directly with local newspaper and radio stations and posted on the Department's Facebook page. Additionally, all roadwork notices are emailed to the Department of Transportation's (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>
02-07-2024	HAENA – Powerhouse Road, Anahulu Road, Ananalua Road and portion of Kuhio Highway	Water conservation notice issued, water service shutdown	Feb. 7, 2024 Until further notice	Kauai County Alerts
02-07-2024 (update)		Water conservation notice lifted	Feb. 7, 2024 5:30 p.m.	Kauai County Alerts
02-13-2024	Kalaheo Water Systems Improvement Project - Pu'uwai Road	Partial lane closure notices on Pu'uwai Road extended through March 31, 2024	March 1-31, 2024	Kauai County Alerts
03-07-2024	KALAHEO – Portion of Papalina Road	Water service shutdown on portion of Papalina Road	March 8, 2024 from 8 a.m. to 12 p.m.	Kauai County Alerts
03-07-2024 (update)		Water service shutdown extended until 3 p.m.	March 8, 2024 extended until 3 p.m.	Kauai County Alerts
03-11-2027	All customers	Credit and debit card payments now accepted at DOW office	n/a	

Public Relations Programs

Community Outreach & Education

- The Department participated in the Career Day presentations at Kalaheo Elementary School on February 9, 2024. The career day presentations featured the Operations Division and students received goody bags. Special thanks to DOW's Ryan Smith, Darren Horner, Krieg Medeiros and Stetson Raposas for sharing their knowledge with students during the presentations.
- The Department participated in the Department of Human Resources' community outreach booth at the Waimea Town Celebration Ho'olaule'a event on Feb. 23-24. DOW donated more than 800 giveaways and offered department brochures to promote career opportunities.

- The Department participated in the Career Day presentations at King Kaumuali'i Elementary School on March 6, 2024. DOW's pipefitter series and heavy equipment operator positions were highlighted during the presentations and included an up-close demonstration of the excavator, pipefitter tools, equipment and process of each position. Students received goody bags with water awareness resources from DOW. Special thanks to DOW's Darren Horner, Ryan Fu, Krieg Medeiros and Lenny Camat for their time and presentations at this career day event.
- The Department is participating in the national, "Fix a Leak Week" campaign March 18-22 in partnership with the Environmental Protection Agency (EPA) WaterSense program. Free leak detection toilet tablets will be offered at M. Tanaka Store and in the main lobby along with an educational display board to promote conservation efforts and leak detection. The toilet tablet distribution will be offered March 1- 31, 2024.

Advertising & Communications

- The Department's "Wise Water Wednesday" advertising awareness campaign for the month of March includes water service line inspection notices related to the Lead and Copper Rules Revision, Fix a Leak Week notices, employment opportunities and conservation notices. The weekly media campaign is posted on the Department's Facebook page, aired on local radio stations and published in the Garden Island Newspaper.
- Additional radio spots and print advertisements via the Garden Island and MidWeek publications have been reserved in March, to promote the department's Fix a Leak week campaign and in April to promote the Your Better Yard community outreach booth. Advertising will also include notifications related to the monthly water service inspections being conducted island wide as part of the Lead and Copper Rules Revision (LCRR).
- A customer letter entitled; Unauthorized User notice, has been scheduled for automated mail out by vendor, Doxim in early March.

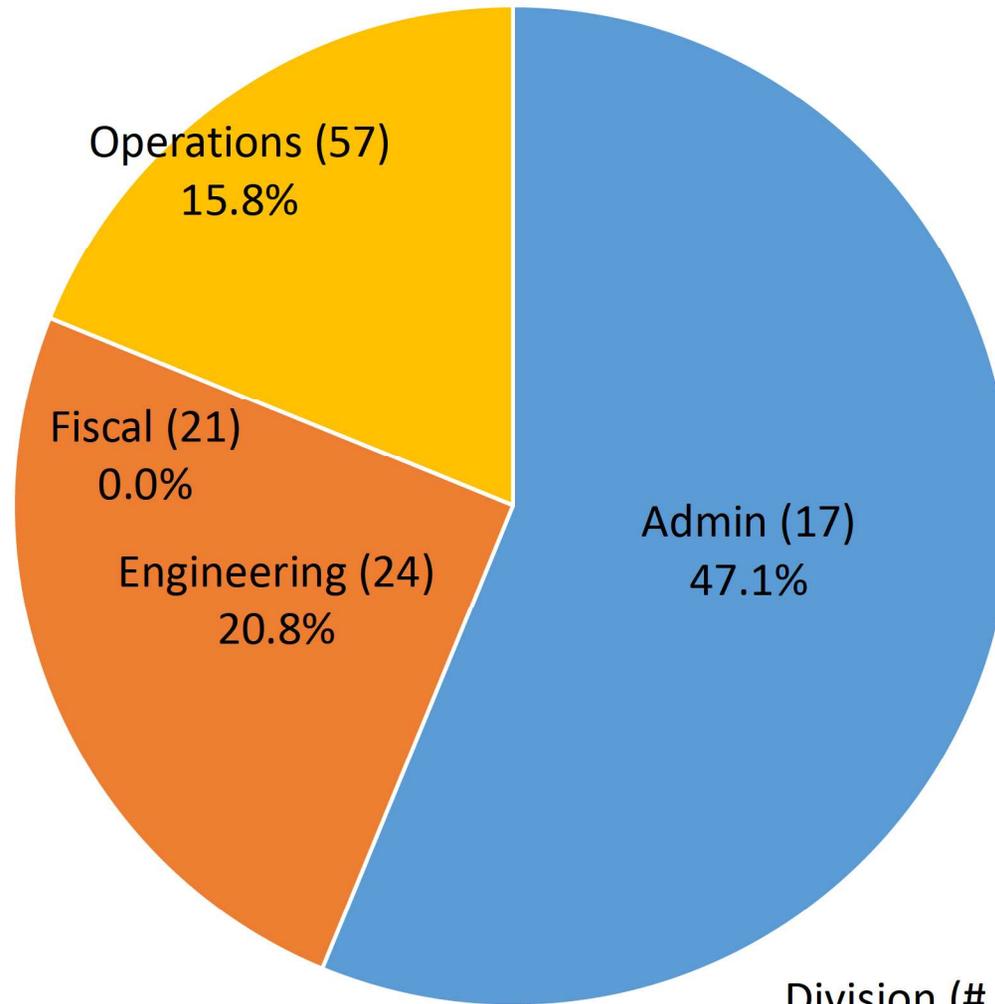
Upcoming Community Outreach & Educational Events

- EPA WaterSense Fix a Leak Week – March 18-22, 2024
- Your Better Yard Community Outreach – April 6, 2024
- STEAM Night at Ele'ele Elementary School – April 19, 2024
- National Drinking Water Week – May 6-10, 2024
- Project WET Educator Workshop – June 21, 2024

Project WET (Water Education Today) Hawaii

- Project WET Hawaii conducted its first Facilitator Training of the year on March 8, 2024, certifying 6 new Facilitators. The next Project WET workshop is being planned for June 21, 2024.
- A new curriculum guide from Project WET USA, entitled the Foundations Guide was released at the end of February 2024. Project WET Hawaii is expecting to receive its first copy in early March. The new guide will include revisions to the curriculum, additional online resources and other network updates. A training workshop and special meetings are being held for all coordinators as part of the new Foundation Guide launch.
- The annual Make a Splash with Project WET Festival is tentatively scheduled for Friday, Sept. 20, 2024, pending confirmation of venue permit.

% Vacancy Within Each Division Level



Division (# Auth) - % Vacant

CORRECTIVE ACTION PLAN

2023-001 IT General Control Deficiencies

The following items are addressed individually to show movement on the CAP. The key to the colors below is:

- green text items were validated by an auditor;
- blue text items are complete and are recurring actions awaiting audit;
- olive text are items we have planned and are awaiting external pieces or more time for completion; and
- black text items have not yet been designed.

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 (Department of Water).

Schedule for Implementation:

An ADCUA from Division Heads is a formal process and a pre-notice to HR & IT communicating action regarding an employee. The HR Coordinator posts a separation after the action takes place. **Completed 9/2023**

- Ensure a process that documents non-adherence to password security policies and that protection of systems has been adequately demonstrated to management.

Schedule for Implementation:

Password security has been reviewed and implementation by group policy is now in line with current industry standards. **Completed 3/31/2023**

- 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.

Schedule for Implementation:

System analysis continues with the assistance of IT professionals and peers to help define the policies and procedures to be implemented. Ryan Smith heads

the IT Steering Committee which will review and approve the process. *Ongoing since 8/2023*

- DOW uses Microsoft Defender for 365 to implement our Security Awareness Program. We have set up training and simulation for peer groups and will roll out when ready.

Schedule for Implementation:

Released to select groups. *Ongoing since 2/2024*

- This is currently underway as DOW has contracted with professional services firms to work alongside IT staff.

Schedule for Implementation:

Consultant services and staff work is ongoing. *Ongoing since 1/2023*

- This effort will be completed in conjunction with hardware, software, and staffing augmentation overseen by the IT Manager.

Schedule for Implementation:

Efforts have been underway to address critical issues with hardware, software, and system security. We have budgeted for a Managed Services Provider (MSP) contract. Measure of success will be MSP contracted. Defining DOW Matrix procurement process with Tyler. *Quoted 12/2023*

Specialist III will address tickets and common tasks but still attack team issues independently. *Interview pending 3/2024*

Physical Security

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

Schedule for Implementation:

Leadership has identified authorized personnel who are granted access to the server room, based on position responsibility. Access monitoring has been implemented and is ongoing. **Completed 1/31/2023**

Change Management

- The IT Steering Committee will design and recommend a new DOW SOP (STANDARD OPERATING PROCEDURE) to define and ensure that changes to systems are authorized, tested, accepted, and tracked. May not be defined in SOP but within Section. May be captured in Contracts database.

Schedule for Implementation:

The Department has been and continues to work through the process of creating a stable environment; and will be creating a process of change authorization, unit testing, system test and implementation. Database schema and use cases being developed. Planned implementation using software or dev IIS server and SQL Server. Software will be written or purchased. **Requirements phase 3/2024**

2023-004 **Improve Procedures to Identify and Account for Contracts**

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

Schedule for Implementation:

This task was jointly owned by the Fiscal Division and the IT Section for coordinating the assemblage of all DOW Contracts, Leases, Agreements, and Licenses for inclusion into an IT-populated database that would be globally utilized within DOW to access and track when legal documents are in need of renewing, expiring, transferring, updating, and/or replacing. Fiscal was to assemble the various areas of subject matter documents from each Division, screen and confirm the documents were current and valid, and provide the final, cleared documents to IT for inclusion into the global database for employee use.

Due to change in Fiscal leadership, who was not here long enough to be aware of what documents existed throughout DOW, combined with the departure of several Fiscal Division staff and the lack of adequate IT and Administration Division staff, this task remains incomplete and should be included in FY24-25 objectives.

In process 12/24.

MANAGER'S UPDATE

March 21, 2024

Pursuant to Board Policy No. 3

CONTRACTS AWARDED, EXTENDED, AND/OR AMENDED

- 1. CHANGE ORDER NO. 4 TO CONTRACT NO. 716 WITH RONALD N.S. HO & ASSOCIATES, INC..
JOB NO. 21-03, PAUA VALLEY WELL MCC REPLACEMENT, KEKAHA, KAUA'I, HAWAII**

RECOMMENDATION:

It is recommended that the Manager approve Change Order No. 4 for Contract No. 716 with Ronald N.S. Ho & Associates, Inc.

FUNDING:

Account No.	10-40-00-604-999		
Acct Description	WU/Ops/Capital Outlay- R&R/Misc. Capital Purchases		
Funds Available	<i>Verified by WWC</i>		\$ N/A
Contract No.	716		
Vendor	Ronald N.S. Ho & Associates, Inc.		
	Original Contract	\$ 68,222.04	
	Change Order No. 1 (time only)	\$ 0.00	
	Change Order No. 2	\$ 5,068.68	
	Change Order No. 3	\$ 403.00	
	Total Funds Certified To Date	\$ 73,693.72	
Change Order No. 4:			
	Contract Time Extension of 365 calendar days	\$ 0.00	
	Total Change Order	\$ 0.00	<\$ N/A>
Contract Amount To Date		\$ 73,693.72	
Fund Balance			\$ N/A

BACKGROUND:

Contract NTP Date: November 3, 2021
Original Contract End Date: September 18, 2022
New Contract End Date: March 1, 2025

The no cost time extension is to cover engineering services during the construction period.

**2. NASPO VL CONTRACT NO. 17-18, CPA2024-01, CONTRACT CHANGE ORDER NO. 1 WITH CARAHSOFT TECHNOLOGY CORPORATION.
ADDITION OF BACKFLOW MODULE TO CARTEGRAPH ASSET MANAGEMENT SOLUTION**

RECOMMENDATION:

It is recommended that the Manager approve Change Order No. 1 to allow the addition of the Backflow Module to Cartegraph Asset Management Solution.

FUNDING:

Account No.	10-02-00-604-999		
Acct Description	WU/IT/Capital Outlay-Rehabilitation and Replacement/Misc. Capital Purchases (Line 1 MMIS)		
Funds Available	<i>Verified by WWC</i>		\$576,760.44
Contract No.	CPA2024-01		
Vendor	Carahsoft Technology Corporation		
	Contract Amount (Year 1 of 3)	\$69,751.56	
	5% Contingency	\$3,488.00	
	Total Funds Certified To Date	\$73,239.56	
Change Order No. 1:			
	Backflow Software Module	\$9,040.00	
	Total Change Order	\$9,040.00	<\$9,040.00>
Contract Amount To Date		\$78,791.56	
Fund Balance			\$567,720.44

BACKGROUND:

Contract NTP Date: September 7, 2023
 Original Contract End Date: August 31, 2024
 New Contract End Date: N/A

The Department’s current software that manages and track backflow inspection requirements will be reaching its end of life in April 2024. In order to keep up with managing and tracking backflow inspections, Cartegraph will be utilized to perform this and the Backflow Software Module added to this implementation will continue to maintain our backflow inspection program records.

3. OPERATIONS DIVISION BUDGET ADJUSTMENT TRANSFER

RECOMMENDATION:

It is recommended that the Manager approve a budget transfer in the amount of \$230,000.00 to provide funds for meter inventory replacement.

FUNDING:

See Attached Budget Adjustment Transfer Form

BACKGROUND:

Due to the number of failing meter transponders, Operations Division is ordering a large amount of replacement transponders/registers to perform these repairs in-house. In addition to the meter repair parts, Operations also requires restocking of inventory warehouse parts. There have been savings in other areas of the Operations Budget from negotiating with consultants to reduce cost and finding ways to purchase goods that save money. Those savings can be re-assigned to the inventory GL to allow for the purchase of additional meter repair parts.

CONVEYANCE OF WATER FACILITIES NONE

Request No. **FY 2024 - OPS 1**

**DEPARTMENT OF WATER - COUNTY OF KAUAI
BUDGET ADJUSTMENT TRANSFER FORM**

Division: OPERATIONS

TO THE MANAGER: It is requested that Appropriation and/or Budget Transfer in the amount(s) specified be approved.

COUNTY OF KAUAI

FROM: Account No.	Amount	Account Title	Current Budget	Revised Budget	Actual to Date
10-40-00-604-181	\$ 20,000.00	WU-Operations R&R Replace Fuel Plant	\$ 30,000.00	\$ 10,000.00	\$ 8,977.87
10-40-00-604-182	\$ 90,000.00	WU-Operations R&R Upgrade and Replace SCADA RTU and PLC	\$ 500,000.00	\$ 410,000.00	-
10-40-60-560-000	\$ 120,000.00	WU-Operations T&D Repairs and Maintenance Water System	\$ 500,000.00	\$ 380,000.00	\$ 30,953.40
TO: Account No.	Amount	Account Title	Current Budget	Revised Budget	Actual to Date
10-40-60-563-010	\$ 230,000.00	WU-Operations T&D Supplies Inventory Stock	\$ 1,320,000.00	\$ 1,550,000.00	\$ 644,301.84

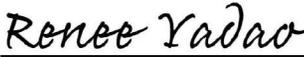
Justification: Additional budget needed to purchase meters and other inventory items.

Requesting Division: Operations


Ryan Smith (Feb 16, 2024 05:56 HST)
Division Manager

Feb 16, 2024
DATE

CERTIFIED AS TO PROPRIETY AND FUND AVAILABILITY:


Renee Yadao
WATERWORKS CONTROLLER

Feb 16, 2024
DATE

APPROVED: 
DENIED: _____


Manager and Chief Engineer

Feb 16, 2024
DATE

Completed